The following is the text of a report set out on pages [I-1] to [I-3], received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers Hong Kong] ***[DRAFT]***

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA GRAPHITE GROUP LIMITED AND LEGO CORPORATE FINANCE LIMITED

Introduction

We report on the historical financial information of China Graphite Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-4 to [I-59], which comprises the consolidated statements of financial position as at 31 December 2019, 2020 and 2021, the company statements of financial position as at 31 December 2020 and 2021, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2019, 2020 and 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-4 to [I-59] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated *[date]* (the "**Document**") in connection with the [REDACTED] of [REDACTED] of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's 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 accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2020 and 2021 and the consolidated financial position of the Group as at 31 December 2019, 2020 and 2021 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 28 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

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

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong

[Date]

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

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

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
		2019	**2020**	**2021**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*5*	123,736	168,749	198,365
Cost of sales	*7*	(64,309)	(85,502)	(105,322)
Gross profit		59,427	83,247	93,043
Other income and other gains, net	*6*	663	300	8,033
Selling and distribution expenses	*7*	(14,299)	(9,393)	(10,138)
General and administrative expenses	*7*	(9,019)	(18,770)	(19,738)
Research and development expenses	*7*	(4,820)	(5,830)	(8,118)
Reversal of/(provision for) impairment of financial assets	*17*	194	(349)	(1,463)
Operating profit		32,146	49,205	61,619
Finance income	*9*	12	18	54
Finance costs	*9*	(435)	(778)	(834)
Finance costs, net		(423)	(760)	(780)
Profit before income tax		31,723	48,445	60,839
Income tax expense	*10*	(7,174)	(10,586)	(7,514)
Profit and total comprehensive income for the year		24,549	37,859	53,325

		Year ended 31 December		
		2019	**2020**	**2021**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Profit and total comprehensive income attributable to:				
Owner of the Company		24,549	36,884	53,325
Non-controlling interests		—	975	—
Profit and total comprehensive income for the year		24,549	37,859	53,325
Earnings per share for profit attributable to owner of the Company				
— Basic and diluted *(Note)*	*11*	24,549	36,884	53,325

Note: The earnings per share presented above has not been taken into account the proposed [REDACTED] pursuant to the resolutions in writing of the shareholder passed on [●] because the proposed [REDACTED] has not become effective as at the date of this report.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2019	2020	2021
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Non-current assets				
Property, plant and equipment	*12*	60,546	71,864	87,908
Right-of-use assets	*13*	5,799	7,608	9,933
Mining rights	*14*	20,562	27,013	25,905
Other intangible assets		63	55	35
Deferred income tax assets	*23*	2,506	779	271
Prepayments	*18*	3,039	244	1,038
		92,515	107,563	125,090
Current assets				
Inventories	*16*	35,423	25,992	18,874
Trade and bills receivables	*17*	113,632	160,863	148,645
Deposits, prepayments and other receivables	*18*	180	4,566	7,533
Cash and cash equivalents	*19*	1,861	10,007	33,934
		151,096	201,428	208,986
Total assets		243,611	308,991	334,076
Equity				
Capital and reserves attributable to owner of the Company				
Share capital *(Note)*	*24(a)*	—	—	—
Share premium	*24(b)*	—	158,693	158,693
Other reserves	*24(b)*	13,339	(143,469)	(142,469)
Retained earnings	*24(b)*	97,452	133,449	185,774
Total equity		110,791	148,673	201,998

Note: Share capital of the Company is less than RMB1,000 and rounded as nil.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2019	**2020**	**2021**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Non-current liabilities				
Lease liabilities	*13*	164	976	383
Provision for reclamation and mine closure		2,206	2,314	2,427
Deferred income tax liabilities	*23*	2,516	1,462	1,838
		4,886	4,752	4,648
Current liabilities				
Trade payables	*20*	16,160	20,965	18,608
Accruals and other payables	*21*	12,595	19,754	18,498
Amounts due to related parties and non-controlling interests	*25*	77,696	82,749	73,127
Borrowings	*22*	16,156	18,500	10,000
Contract liabilities	*5(e)*	443	9,758	5,310
Lease liabilities	*13*	680	1,169	1,143
Current tax liabilities		4,204	2,671	744
		127,934	155,566	127,430
Total liabilities		132,820	160,318	132,078
Total equity and liabilities		243,611	308,991	334,076

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December	
		2020	**2021**
	Notes	*RMB'000*	*RMB'000*
Assets			
Non-current asset			
Investment in a subsidiary		159,038	159,038
Current asset			
Prepaid [REDACTED]	*18*	2,876	5,584
Total assets		161,914	164,622
Equity			
Equity attributable to owner of the Company			
Share capital *(Note)*	*24*	—	—
Share premium		158,693	158,693
Other reserves		(8,011)	(15,655)
Total equity		150,682	143,038
Liabilities			
Current liabilities			
Accrued expenses	*21*	4,624	3,879
Amounts due to subsidiaries		2,625	12,371
Amount due to a shareholder	*25(a)*	3,983	5,334
		11,232	21,584
Total liabilities		11,232	21,584
Total equity and liabilities		161,914	164,622

Note: Less than RMB1,000 and rounded as nil.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2019	—	—	2,670	10,000	73,572	—	86,242
Comprehensive income							
Profit for the year	—	—	—	—	24,549	—	24,549
Total comprehensive income	—	—	—	—	24,549	—	24,549
Transaction with owner							
Appropriation to statutory reserve	—	—	669	—	(669)	—	—
	—	—	669	—	(669)	—	—
Balance at 31 December 2019 and 1 January 2020	—	—	3,339	10,000	97,452	—	110,791
Comprehensive income							
Profit for the year	—	—	—	—	36,884	975	37,859
Total comprehensive income	—	—	—	—	36,884	975	37,859
Transactions with owner							
Capital injection of non-controlling interests *(Note 1.2(b))*	—	—	—	—	—	4,941	4,941
Reorganization *(Note)*	—	158,693	—	(158,670)	975	(5,916)	(4,918)
Appropriation to statutory reserve	—	—	1,441	—	(1,441)	—	—
Appropriation to other reserve	—	—	—	421	(421)	—	—
	—	158,693	1,441	(158,249)	(887)	(975)	23
Balance at 31 December 2020 and 1 January 2021	—	158,693	4,780	(148,249)	133,449	—	148,673
Comprehensive income							
Profit for the year	—	—	—	—	53,325	—	53,325
Total comprehensive income	—	—	—	—	53,325	—	53,325
Transactions with owner							
Appropriation to statutory reserve	—	—	483	—	(483)	—	—
Appropriation to other reserve	—	—	—	517	(517)	—	—
	—	—	483	517	(1,000)	—	—
Balance at 31 December 2021	—	158,693	5,263	(147,732)	185,774	—	201,998

Note:

Pursuant to the reorganization stated in Note 1.2, RMB158,693,000 was transferred from other reserves to share premium upon the completion of reorganization (Notes 1.2(g) and 1.2(h)). Non-controlling interests amounted to RMB5,916,000 and other reserves amounted to RMB23,000 were derecognized upon the acquisition of non-controlling interests (Notes 1.2(g) and (h)).

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2019	**2020**	**2021**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cash flow from operating activities				
Cash generated from operations	*26(a)*	20,157	35,966	84,255
Income tax paid		(8,913)	(11,422)	(8,557)
Net cash generated from operating activities		11,244	24,544	75,698
Cash flows from investing activities				
Purchase of property, plant and equipment		(19,772)	(13,857)	(26,487)
Purchase of land use rights		—	—	(2,731)
Purchase of intangible assets		(63)	—	—
Addition of mining rights		(8,341)	(8,288)	—
Proceeds from disposal of property, plant and equipment	*26(b)*	518	1,410	42
Interest received		12	18	54
Net cash used in investing activities		(27,646)	(20,717)	(29,122)
Cash flows from financing activities				
Proceeds from bank and other borrowings		12,540	18,500	3,000
Repayments of bank and other borrowings		(639)	(16,156)	(11,500)
Interest paid		(435)	(671)	(721)
Repayments of principal elements of lease liabilities		(959)	(841)	(1,120)
Payment of [REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
Advances from related parties		31,424	9,681	1,351
Repayments to related parties		(28,802)	(9,569)	(6,032)
Capital injection from non-controlling interests		—	4,941	—
Acquisition of non-controlling interests pursuant to Reorganization	*1.2(g) and (h)*	—	—	(4,941)
Net cash generated from/(used in) financing activities	*26(c)*	[REDACTED]	[REDACTED]	[REDACTED]
Net (decrease)/increase in cash and cash equivalents		(3,273)	8,146	23,927
Cash and cash equivalents at the beginning of the year		5,134	1,861	10,007
Cash and cash equivalents at end of the year	*19*	1,861	10,007	33,934

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information, reorganization and basis of presentation

1.1 General information

The Company was incorporated in the Cayman Islands on 3 August 2020 as an exempted company with limited liability under the Companies Act (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and sale of graphite products (the "**[REDACTED] Business**"). During the Track Record Period, the [REDACTED] Business was carried out through the subsidiaries of the Company. The ultimate holding company of the Company is Sandy Mining Limited, a company incorporated in the British Virgin Islands. The ultimate controlling party of the Group is Mr. Zhao Liang ("**Mr. Zhao**").

1.2 Reorganization

Prior to the incorporation of the Company and the completion of the reorganization as described below, the [REDACTED] Business was operated under the control of the controlling shareholder, Mr. Zhao, throughout the Track Record Period.

In preparation for the [REDACTED], the Group underwent a group reorganization (the "**Reorganization**"), pursuant to which the companies engaged in the [REDACTED] Business were transferred to the Company. The Reorganization involved the followings:

(a) On 11 June 2020, Sandy Mining Limited ("**Sandy Mining**") was incorporated under the laws of the British Virgin Islands ("**BVI**"). On 2 July 2020, 1 share of Sandy Mining was issued and allotted, credited as fully paid, to Mr. Zhao Liang.

(b) As part of the Reorganization, on 27 July 2020, Heilongjiang Baoquanling Agricultural Reclamation Yixiang Graphite Co., Ltd. ("**Yixiang Graphite**") and Heilongjiang Baoquanling Agricultural Reclamation Yixiang New Energy Materials Co., Ltd. ("**Yixiang New Energy**") increased their respective registered share capital by 263,158 shares. Upon the completion, each of Yixiang Graphite and Yixiang New Energy had 5,263,158 shares in the registered share capital. On the same day, an investor, Ms. Song Meixin invested in both companies through the acquisition of 263,158 shares in each of Yixiang Graphite and Yixiang New Energy at a consideration of RMB4,941,000, representing 5% equity interests in each of Yixiang Graphite and Yixiang New Energy.

(c) On 3 August 2020, the Company was incorporated under the laws of the Cayman Islands. On the same day, 1 share was issued and allotted, credited as fully paid, to Sandy Mining.

(d) On 21 August 2020, Noah Energy Limited ("**Noah Energy**") was incorporated under the laws of the BVI. On 28 August 2020, 50,000 shares was issued and allotted, credited as fully paid, to the Company.

(e) On 28 August 2020, China Graphite Holdings Group (HK) Limited ("**China Graphite HK**") was incorporated in Hong Kong. On the same date, 10,000 shares of China Graphite HK was issued and allotted to Mr. Zhao Liang, which was subsequently transferred to Noah Energy on 29 September 2020.

(f) On 26 November 2020, a wholly foreign-owned enterprise, Beijing Yixiang Olefinic Carbon Technology Co., Ltd. ("**Beijing Yixiang**"), was established in the People's Republic of China ("**PRC**") with a registered share capital of RMB10,000,000 with its entire equity interest held by China Graphite HK.

(g) On 14 December 2020, Mr. Zhao Liang, Mr. Zhao Changshan and Ms. Song Meixin, shareholders of Yixiang Graphite, entered into equity interest transfer agreements with Beijing Yixiang in relation to the transfer of their respective 57%, 38% and 5% equity interests in Yixiang Graphite to Beijing Yixiang for considerations of RMB1, RMB1 and RMB4,677,447 respectively. The transfer was completed on 30 December 2020.

(h) On 14 December 2020, Mr. Zhao Liang, Mr. Zhao Changshan and Ms. Song Meixin, shareholders of Yixiang New Energy, entered into equity interest transfer agreements with Beijing Yixiang in relation to the transfer of their respective 63.65%, 31.35% and 5% equity interests in Yixiang New Energy to Beijing Yixiang for considerations of RMB1, RMB1 and RMB263,158 respectively. The transfer was completed on 28 December 2020.

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

Name of company	Place and date of incorporation	Issued and paid-up share capital	Principal activities and place of operation	Effective interest held as at 31 December 2019	2020	2021	As at the date of this report	Name of statutory auditors 31 December 2019	2020	2021
Directly owned:										
Noah Energy	BVI, 21 August 2020	US$50,000	Investment holding, BVI	N/A	100%	100%	100%	N/A	*Note a*	*Note a*
Indirectly owned:										
China Graphite HK	Hong Kong, 28 August 2020	HK$10,000	Investment holding, Hong Kong	N/A	100%	100%	100%	N/A	*Note b*	*Note b*
Beijing Yixiang*	PRC, 26 November 2020	RMB10,000,000	Investment holding, PRC	N/A	100%	100%	100%	N/A	*Note b*	*[Note b]*
Yixiang Graphite*	PRC, 26 June 2006	RMB5,000,000	Manufacturing and sale of graphite products, PRC	100%	100%	100%	100%	*Note c*	*Note e*	*Note f*
Yixiang New Energy*	PRC, 20 April 2011	RMB5,000,000	Manufacturing and sale of graphite products, PRC	100%	100%	100%	100%	*Note d*	*Note e*	*Note f*

Note:

(a) No audited statutory financial statements have been issued for this entity as there are no statutory requirements in the place of incorporation.

(b) No audited financial statements have been issued for this entity since it was newly incorporated in 2020 and statutory audits for the year ended 31 December 2021 have not yet been completed.

(c) Luobei Hexin Accounting Firm (General Partnership)* ("蘿北合信會計師事務所(普通合夥)")

(d) Heilongjiang Hong Di Accounting Firm (General Partnership)* ("黑龍江洪棣會計師事務所(普通合夥)")

(e) Beijing Yongkun Certified Public Accountants (General Partnership)* ("北京永坤會計師事務所(普通合夥)")

(f) Beijing Yilinao Certified Public Accountants (General Partnership)* ("北京義林奧會計師事務所(普通合夥)")

* *For identification purpose only. The English names of these subsidiaries and the statutory auditors represent the best effort by the Company's management to translate the Chinese names, as these subsidiaries and statutory auditors do not have an official English name.*

1.3 Basis of presentation

Immediately prior to and after the Reorganization, the [REDACTED] Business was controlled by Mr. Zhao, and was conducted through Yixiang Graphite and Yixiang New Energy. Pursuant to the Reorganization, the [REDACTED] Business was transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganization and does not meet the definition of a business. The Reorganization is merely a recapitalization of the [REDACTED] Business with no change in management and the ultimate owners of the [REDACTED] Business remain the same. Accordingly, the Group resulting from the Reorganization is regarded as a continuation of the [REDACTED] Business under the control of Mr. Zhao and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of the [REDACTED] Business from their respective dates of incorporation, or since the dates when they first came under the control of Mr. Zhao, whichever is a shorter period, with the assets and liabilities of the Group recognized and measured at the carrying amounts of the [REDACTED] Business under the consolidated financial statements under Mr. Zhao's control for all periods presented.

2. Summary of significant accounting policies

This note provides a list of significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied to all the years presented, unless otherwise stated. The Historical Financial Information is for the Group consisting of the Company and the companies now comprising the Group.

2.1 Basis of preparation

(i) Compliance with HKFRS

The Historical Financial Information of the Company has been prepared in accordance with principal accounting policies as set out below which are in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the HKICPA are set out below.

(ii) Historical cost convention

The Historical Financial Information has been prepared on a historical cost basis.

(iii) New standards and amendments to existing standards not yet adopted by the Group

The following are standards and amendments to existing standards that have been published and are relevant but not mandatory for the Track Record Period, and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 10 and HKAS 28	Sales or Contributions of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations (Revised)	1 January 2022
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023

The Group will adopt the above new or revised standards, amendments and interpretations to existing standards as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these standards, amendments and interpretations to existing standards.

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors of the Company that make strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statements of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income on a net basis within other income and other gains, net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income presented are translated at average exchange rates (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owner of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("**CIP**"), are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the consolidated statements of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain plant and machines, the shorter lease term as follows:

Plant and buildings	20 years
Machinery and equipment	3–10 years
Motor vehicles	4–5 years
Furniture and fixtures	3–5 years

Depreciation on mining structures is provided to write off the cost of the mining structures using the units of production method based on the total proved and probable reserves of the mine as the depletion base.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

CIP is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the CIP is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of CIP until it is completed and ready for its intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

2.8 Intangible assets

Mining rights

Mining rights are stated at cost less accumulated amortization and accumulated impairment losses and are amortized on the units of production method based on the total proven and probable reserves of the mine.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortization and accumulated impairment losses and are amortized using the straight-line method over the expected useful life of respective intangible asset ranged from 2 to 20 years.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets as those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in "other income and other gains, net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss.

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2.11 Offsetting financial instruments

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

2.12 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore all classified as current.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the consolidated statements of financial position when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statements of financial position date in the places where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.19 Employee benefits

(a) Short-term obligations

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled within twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognized in the year when the employees render the related service.

Employee entitlements to annual leave are recognized 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 consolidated statements of financial position date.

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

(b) Post-employment obligations

The Group operates various pension schemes.

The Group participates in a mandatory provident fund scheme and another defined contribution plan for its staff in Hong Kong. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group also participated in a central pension scheme operated by the local municipal government in Mainland China. Contributions are made by the Group on a monthly basis to the retirement plan based on a percentage of the relevant income of the relevant employees. The Group has no further obligations for the actual payment of pensions beyond its contributions.

Contributions made are recognized as employee benefits expenses when they are due and are not reduced by contribution forfeited by those relevant employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Bonus plan

The Group recognizes a liability and an expense for bonuses, based on performance and takes into consideration the profit attributable to the Company's shareholders. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Provisions for reclamation and mine closure

Provisions for the Group's obligations for reclamation and mine closure are based on estimates of required expenditure at the mines in accordance with the rules and regulations in the People's Republic of China. The obligation generally arises when the asset is installed or the ground environment is disturbed at the mining operation's location. The Group estimates its liabilities for reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The present value of the estimated cost is recognized in cost of sales in the period of relevant ground environment being disturbed.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods in the ordinary course of the Group's activities.

If contracts involve the sale of multiple elements, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenue is recognized when or as the control of the good is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, control of the good may be transferred over time or at a point in time.

Control of the good is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;

- creates or enhances an asset that the customer controls as the Group performs; or

- 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 transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods. Specific criteria where revenue is recognized are described below.

Sales and distribution of goods

The Group manufactures and sells graphite products. Sales are recognized when control of the products has transferred to its customer, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognized based on the price specified in the contract, net of value-added tax, rebates and returns. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made on cash or with a credit term of not more than 90 days. A receivable (financial asset) is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

2.23 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Contracts may contain both lease and non-lease components.

Assets and liabilities arising from leases are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

— fixed payments (including in-substance fixed payments), less any lease incentives receivable;

— variable lease payments that are based on an index or a rate;

— amounts expected to be payable by the lessee under residual value guarantees;

— the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

— payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.24 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.25 Interest income

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in profit or loss as part of other income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.26 Research and development expenses

Costs associated with the enhancement of production process are recognised as an expense as incurred. Only development costs that are directly attributable to the design and testing of identifiable and unique production process controlled by the Group are recognised as intangible assets where the capitalisation criteria stated under HKAS 38 are met.

Research expenditure and development expenditure that do not meet the capitalisation criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.27 Related parties

For the purpose of these consolidated financial statements, related party includes a person and entity as defined below:

(1) A person or a close member of that person's family is related to the Company if that person:

(i) has control or joint control of the Company;

(ii) has significant influence over the Company; or

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

(2) An entity is related to the company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(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) both entities 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 Company or an entity related to the Company. If the reporting entity is itself such a plan, the sponsoring employers are also related to the Company.

(vi) the entity is controlled or jointly controlled by a person identified in (1).

(vii) a person identified in (1)(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).

2.28 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.29 Dividend

No dividend has been paid or declared by the Company or the companies now comprising the Group during each of the years ended 31 December 2019, 2020 and 2021.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks factors: foreign exchange risk, credit risk, liquidity risk, cash flow and fair value interest rate risk. The Company's overall risk management procedures focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group operates in the PRC with most of the transactions denominated in RMB.

The exposure to foreign exchange risk is not material to the Group.

(b) Credit risk

The Group is exposed to credit risk in relation to its trade and bills receivables, deposits, other receivables, and cash and cash equivalents. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

(i) Impairment allowance policies for trade and bills receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables.

For bills receivables, bills are issued by counterparties at reputable banks and finance institutions and the credit risk is considered to be low. Those counterparties do not have defaults in the past. Therefore, expected credit loss rate is assessed to be close to zero and no provision was made as at each of the end of reporting period.

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

The expected loss rates are based on the payment profiles of customers and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has maintained a defined credit policy with tightened risk profile and applied prudent policies to manage its credit risk with its trade receivables that includes an ageing analysis of trade receivables is prepared on a regular basis and is closely monitored to minimize any credit risk associated with receivables.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as ''reversal of/(provision for) impairment of financial assets''. Subsequent recoveries of amounts previously written off are credited against the same line item.

The customers of sale of spherical graphite and its by-products, and unprocessed marble are mainly customers with long business relationship with the Group, and the Group did not experience any historical loss from this group of customers for all the historical outstanding balances, including those aged more than 1 year. Taking into account the forward-looking factors, the historical loss rate for these trade receivables balances is immaterial as at 31 December 2019.

The following table presents the gross carrying amount and the lifetime expected credit loss in respect of individually assessed trade receivables as at 31 December 2019, 2020 and 2021:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Gross carrying amount	1,678	1,617	4,338
Lifetime expected credit loss	(1,678)	(1,617)	(4,338)
Net carrying amount	—	—	—

The following table presents the gross carrying amount and provision for impairment loss in respect of collectively assessed trade receivables by invoice date as at 31 December 2019, 2020 and 2021:

Sale of flake graphite concentrate

	Expected credit loss rate	**Gross carrying amount — trade receivables**	**Loss allowance**	**Net carrying amount**
		RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2019				
Up to 90 days	3.4%	23,771	(820)	22,951
91–180 days	8.4%	2,980	(249)	2,731
181–270 days	15.2%	946	(144)	802
271–365 days	19.9%	775	(154)	621
Over 1 year	32.8%	799	(262)	537
		29,271	(1,629)	27,642
As at 31 December 2020				
Up to 90 days	1.5%	31,569	(487)	31,082
91–180 days	4.4%	7,637	(334)	7,303
181–270 days	9.9%	2,940	(291)	2,649
271–365 days	16.6%	755	(125)	630
Over 1 year	25.3%	3,171	(801)	2,370
		46,072	(2,038)	44,034

	Expected credit loss rate	Gross carrying amount — trade receivables	Loss allowance	Net carrying amount
		RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2021				
Up to 90 days	1.3%	9,289	(118)	9,171
91–180 days	3.4%	6,844	(233)	6,611
181–270 days	8.0%	2,344	(188)	2,156
271–365 days	14.8%	2	—	2
Over 1 year	27.3%	888	(242)	646
		19,367	(781)	18,586

Sale of spherical graphite and its by-products, and unprocessed marble

	Expected credit loss rate	Gross carrying amount — trade receivables	Loss allowance	Net carrying amount
		RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2019				
Up to 90 days	0.0%	23,183	—	23,183
91–180 days	0.0%	607	—	607
181–270 days	0.0%	47	—	47
271–365 days	0.0%	—	—	—
Over 1 year	0.0%	328	—	328
		24,165	—	24,165
As at 31 December 2020				
Up to 90 days	0.0%	26,059	(1)	26,058
91–180 days	0.0%	5,088	—	5,088
181–270 days	0.1%	226	—	226
271–365 days	0.6%	—	—	—
Over 1 year	1.1%	3	—	3
		31,376	(1)	31,375
As at 31 December 2021				
Up to 90 days	0.0%	27,333	—	27,333
91–180 days	0.0%	4,403	—	4,403
181–270 days	0.1%	98	—	98
271–365 days	0.4%	—	—	—
Over 1 year	1.2%	—	—	—
		31,834	—	31,834

(ii) Other financial assets at amortized cost

The Group applies a general approach on other financial assets at amortized cost.

The credit risk on cash and cash and cash equivalents are limited because cash are placed in banks with sound credit ratings.

For deposits, other receivables and bills receivables, management makes periodic collective assessments as well as individual assessment on the recoverability with no significant credit risk identified.

(c) Liquidity risk

The liquidity of the Group is adequately managed and monitored by maintaining sufficient cash balance to meet its financial commitments. Accordingly, the directors are of the opinion that the Group does not have significant liquidity risk.

The contractual maturity for the Group's financial liabilities at the date of statement of financial position is as follows. The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balances due within 12 months equal their carrying balances (including both interest and principal) as the impact of discounting is not significant.

	On demand/ less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2019					
Trade payables	16,160	—	—	—	16,160
Accruals and other payables	7,509	—	—	—	7,509
Amounts due to related parties	77,696	—	—	—	77,696
Borrowings	16,411	—	—	—	16,411
Lease liabilities	819	183	—	—	1,002
	118,595	183	—	—	118,778
31 December 2020					
Trade payables	20,965	—	—	—	20,965
Accruals and other payables	14,022	—	—	—	14,022
Amounts due to related parties and non-controlling interests	82,749	—	—	—	82,749
Borrowings	18,827	—	—	—	18,827
Lease liabilities	1,214	1,006	—	—	2,220
	137,777	1,006	—	—	138,783

	On demand/ less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2021					
Trade payables	18,608	—	—	—	18,608
Accruals and other payables	14,019	—	—	—	14,019
Amounts due to related parties	73,127	—	—	—	73,127
Borrowings	10,220	—	—	—	10,220
Lease liabilities	1,217	413	—	—	1,630
	117,191	413	—	—	117,604

(d) Interest rate risk

The Group's interest rate risk arises from bank and other borrowings. Most of the Group's assets and liabilities are either interest-free or subject to interest at fixed rates which expose the Group to fair value interest rate risk. As at 31 December 2019, 2020 and 2021, the Group's borrowings at several rates were denominated in RMB. The Group's exposure to fair value interest rate risk as at 31 December 2019, 2020 and 2021 is not material.

Cash flow interest rate risk is the risk that changes in market interest rates will impact cash flows arising from variable rate financial instruments. The Group is not exposed to significant cash flow interest rate risk as most of the Group's assets and liabilities are either interest-free or subject to interest at fixed rates.

3.2 Fair value estimation

The carrying values less loss allowance for trade and bills receivables, deposits, other receivables and cash and cash equivalents, and trade payables, accruals and other payables, amounts due to related parties and non-controlling interests and borrowings are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments, unless the effect of discounting is insignificant.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the owner to procure adequate financial resumes from the owner. The Group's overall strategy remains consistent during the years ended 31 December 2019, 2020 and 2021.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends proposed or paid to the owner or issue new shares.

The capital structure of the Group consists of shareholders' equity and total borrowings. Capital is managed so as to maximize the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business. The Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and amounts due to related parties and non-controlling interests as shown in the consolidated statements of financial position and excluding lease liabilities) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statements of financial position plus net debt.

The debt-to-capital ratios during Track Record Period were as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Total borrowings			
— Borrowings	16,156	18,500	10,000
— Amounts due to related parties and non-controlling interests	77,696	82,749	73,127
Less: Cash and cash equivalents	(1,861)	(10,007)	(33,934)
Net debt	91,991	91,242	49,193
Total equity	110,791	148,673	201,998
Total capital	202,782	239,915	251,191
Debt-to-capital ratio	45.4%	38.0%	19.6%

4 Critical accounting estimates and judgments

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group's management 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.

4.1 Provision for slow moving inventories

The Group makes provision for slow moving inventories based on assessing the needs and reasonableness of provision for slow moving inventories at each period end. The identification of slow moving inventories requires the use of judgments and key assumptions which take into consideration of historical sales pattern, ageing and expectation of future sales orders. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and provision for inventories.

4.2 Impairment of trade receivables

The loss allowances for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

4.3 Amortization of mining rights and depreciation of mining structures

Mining rights and mining structures are amortized and depreciated over the estimated total proven and probable reserves of the mines using units of production method. The Group assesses on an annual basis the estimated reserve of the mine. However, the remaining license period of the mining rights held by the Group is shorter than the estimated useful lives of the mine estimated by the Group. Management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges. If the expectation differs from the original estimate, such differences will impact the amortization charged in the period in which such estimate is changed.

Engineering estimates of the Group's mine reserves involved subjective judgments by engineers in developing such information and reserves are estimated in accordance with national standards set by relevant PRC authorities. Estimates of proven and probable reserves involved subjective judgments and assumptions are required for a range of geological, technical and economic factors, so the proven and probable reserves are only approximate values. The recent production and technology documents shall be considered for the estimates of proven and probable reserves which will be updated regularly, the inherent inaccuracy of technical estimating exists. If the past estimates change significantly, the amortization and depreciation shall be adjusted during future periods.

4.4 Obligation for reclamation and mine closure

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including development plan of the mines, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgments from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognized at the appropriate discount rate.

5 Revenue and segment information

The Group operates as two segments. The two operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operation Decision-Maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that make strategic decisions.

The CODM considered the nature of the Group's business and determined that the Group has two reportable operating segments as follows:

— Sale of flake graphite concentrate

— Sale of spherical graphite and its by-products, and unprocessed marble

The accounting policies of the reportable segments are the same as the Group's accounting policies. Performance is measured based on segment results that is used by the CODM for the purposes of resources allocation and assessment of segment performance. Income tax expense is not allocated to reportable segments. The Group derived revenue from the sales of goods at a point in time.

The revenue, profit or loss, assets and liabilities of the Group are allocated based on the operations of the segments.

Reportable segment results is profit before income tax, excluding unallocated other income and other gains, net, finance costs, net, amortization of land-use rights that are used by all segments and other corporate expenses (mainly including staff costs, professional fees, [REDACTED] and other general administrative expenses) of the head office.

Reportable segment assets exclude unallocated deferred income tax assets, cash and cash equivalents and other corporate assets (mainly including land-use rights that are used by all segments).

Reportable segment liabilities exclude unallocated deferred income tax liabilities, current tax liabilities, bank borrowings, amounts due to related parties and non-controlling interests and other corporate liabilities (mainly including accrued charges of the head office).

There are no unsatisfied nor partially unsatisfied performance obligation that has an original expected duration of one year or more.

(a) The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2019 is as follows:

	Sale of flake graphite concentrate *RMB'000*	**Sale of spherical graphite and its by-products, and unprocessed marble** *RMB'000*	**Total** *RMB'000*
Segment revenue	86,054	76,178	162,232
Intersegment revenue	(28,680)	(9,816)	(38,496)
Revenue from external customers	57,374	66,362	123,736
Segment results	28,805	10,427	39,232
Elimination of intersegment profits			(2,793)
Unallocated amounts:			
Other income and other gains, net			663
Depreciation of right-of-use assets			(63)
Corporate expenses			(4,893)
Finance costs, net			(423)
Profit before income tax			31,723
Income tax expense			(7,174)
Profit for the year			24,549
Depreciation of property, plant and equipment	(2,645)	(3,106)	(5,751)
Depreciation of right-of-use assets	—	(248)	(248)
Amortization of mining rights	—	(813)	(813)
Reversal of impairment of financial assets	107	87	194
Capital expenditures	3,638	28,904	32,542

Reportable segment assets and liabilities are reconciled to total assets and total liabilities of the Group as at 31 December 2019 as follows:

	Sale of flake graphite concentrate *RMB'000*	**Sale of spherical graphite and its by-products, and unprocessed marble** *RMB'000*	**Total** *RMB'000*
Assets			
Reportable segment assets	89,000	159,768	248,768
Intersegment elimination			(10,022)
Unallocated assets			4,865
Total assets per consolidated statements of financial position			243,611
Liabilities			
Reportable segment liabilities	16,902	31,502	48,404
Unallocated liabilities			84,416
Total liabilities per consolidated statements of financial position			132,820

(b) The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2020 is as follows:

	Sale of flake graphite concentrate *RMB'000*	Sale of spherical graphite and its by-products, and unprocessed marble *RMB'000*	Total *RMB'000*
Segment revenue	113,051	89,922	202,973
Intersegment revenue	(27,342)	(6,882)	(34,224)
Revenue from external customers	85,709	83,040	168,749
Segment results	40,157	15,898	56,055
Elimination of intersegment loss			5,128
Unallocated amounts:			
Other income and other gains, net			300
Depreciation of right-of-use assets			(63)
Corporate expenses			(4,001)
[REDACTED]			[REDACTED]
Finance costs, net			(760)
Profit before income tax			48,445
Income tax expense			(10,586)
Profit for the year			37,859
Depreciation of property, plant and equipment	(2,592)	(4,904)	(7,496)
Depreciation of right-of-use assets	—	(270)	(270)
Amortization of mining rights	—	(1,837)	(1,837)
(Provision for)/reversal of impairment of financial assets	(388)	39	(349)
Capital expenditures	12,585	18,751	31,336

Reportable segment assets and liabilities are reconciled to total assets and total liabilities of the Group as at 31 December 2020 as follows:

	Sale of flake graphite concentrate *RMB'000*	Sale of spherical graphite and its by-products, and unprocessed marble *RMB'000*	Total *RMB'000*
Assets			
Reportable segment assets	123,221	184,715	307,936
Intersegment elimination			(4,895)
Unallocated assets			5,950
Total assets per consolidated statements of financial position			308,991
Liabilities			
Reportable segment liabilities	26,699	28,113	54,812
Unallocated liabilities			105,506
Total liabilities per consolidated statements of financial position			160,318

(c) The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2021 is as follows:

	Sale of flake graphite concentrate *RMB'000*	Sale of spherical graphite and its by-products, and unprocessed marble *RMB'000*	Total *RMB'000*
Segment revenue	128,747	108,074	236,821
Intersegment revenue	(31,075)	(7,381)	(38,456)
Revenue from external customers	97,672	100,693	198,365
Segment results	44,414	18,245	62,659
Elimination of intersegment loss			3,204
Unallocated amounts:			
Other income and other gains, net			8,033
Depreciation of right-of-use assets			(63)
Corporate expenses			(5,333)
[REDACTED]			[REDACTED]
Finance costs, net			(780)
Profit before income tax			60,839
Income tax expense			(7,514)
Profit for the year			53,325
Depreciation of property, plant and equipment	(5,503)	(5,390)	(10,893)
Depreciation of right-of-use assets	(258)	(586)	(844)
Amortization of mining rights	—	(1,108)	(1,108)
Provision for impairment of financial assets	(1,460)	(3)	(1,463)
Capital expenditures	19,286	11,393	30,679

Reportable segment assets and liabilities are reconciled to total assets and total liabilities of the Group as at 31 December 2021 as follows:

	Sale of flake graphite concentrate *RMB'000*	Sale of spherical graphite and its by-products, and unprocessed marble *RMB'000*	Total *RMB'000*
Assets			
Reportable segment assets	153,907	172,591	326,498
Intersegment elimination			(1,691)
Unallocated assets			9,269
Total assets per consolidated statements of financial position			334,076
Liabilities			
Reportable segment liabilities	31,751	10,738	42,489
Unallocated liabilities			89,589
Total liabilities per consolidated statements of financial position			132,078

(d) Other segment information

The Group is domiciled in the PRC. All of its revenue from external customers are from customers located in the PRC.

During Track Record Period, revenue from 1, 1 and 2 customers respectively, individually contributed over 10% of the Group's revenue. The revenue from the customer during the years are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	N/A*	N/A*	40,523
Customer B	46,943	63,926	39,956

* Revenue from the customer is less than 10% of the total revenue of the Group for the respective years.

All of the Group's activities are carried out in the PRC and all of the Group's assets and liabilities are substantially located in the PRC. Accordingly, no analysis by geographical basis is presented.

(e) Assets and liabilities related to contracts with customers

The Group has recognized RMB670,000, RMB443,000, RMB9,758,000 and RMB5,310,000 receipts in advance from customers for the sale of graphite products as contract liabilities as at 1 January 2019, 31 December 2019, 2020 and 2021. For the years ended 31 December 2019, 2020 and 2021, RMB670,000, RMB443,000 and RMB9,758,000 of revenue recognized, respectively, relates to carried-forward contract liabilities.

6 Other income and other gains, net

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Government grants *(Note)*	500	630	7,858
Others	68	5	163
Other gains/(losses), net			
Gains/(losses) on disposal of property, plant and equipment, net	95	(335)	12
	663	300	8,033

Note: The amount mainly represents the Group's entitlement to corporate income tax refund and government grants in relation to research and development. For the years ended 31 December 2019, 2020 and 2021, the Group has complied with all conditions attached to the government grants.

7 Expenses by nature

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials used			
— in production	34,668	24,752	38,987
— for research and development	1,214	2,564	2,703
Changes in inventories of finished goods and work in progress	(8,396)	18,388	12,979
Blasting expense	384	1,752	1,560
Subcontracting and processing charges	—	164	6,497
Provision for/(reversal of) impairment of inventories	290	(330)	(306)
Transportation fees	6,253	8,032	7,905
Auditor's remuneration	—	30	50
Depreciation of property, plant and equipment *(Note 12)*	5,751	7,496	10,893
Depreciation of right-of-use assets *(Note 13)*	311	333	907
Amortization of mining rights	813	1,837	1,108
Amortization of other intangible assets	—	8	20
Employee benefit expenses (including directors' emoluments) *(Note 8)*	13,016	13,826	13,938
Outsourcing charges	—	—	4,711
Sales agency fees	903	—	—
Marketing expenses	3,719	4	—
Short-term operating lease rentals in respect of office premises and machineries	2,000	—	760
Utilities expenses	22,799	24,347	26,270
Professional fees	1,281	2,145	2,007
Repair and maintenance expense	2,567	1,957	862
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Exchange (gains)/losses	—	(203)	76
Resource tax and other miscellaneous tax	2,035	2,220	1,936
Others	2,839	1,959	2,572
Total cost of sales, selling and distribution expenses, general and administrative expenses and research and development expenses (excluding reversal of/provision for impairment of financial assets)	[REDACTED]	[REDACTED]	[REDACTED]

8 Employee benefit expenses

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries, bonuses and allowances	13,227	13,695	12,838
Pension costs — defined contribution plans	278	37	888
Other employee benefits	556	497	631
	14,061	14,229	14,357
Capitalized as property, plant and equipment	(1,045)	(403)	(419)
	13,016	13,826	13,938

(a) Five highest paid individuals

The five individuals during the Track Record Period whose emoluments were the highest in the Group include 1, 1 and 2 directors for the years ended 31 December 2019, 2020 and 2021, respectively, whose emoluments are reflected in the analysis presented in Note (b) below. The emoluments payable to the remaining 4, 4 and 3 individuals for the years ended 31 December 2019, 2020 and 2021 are as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	2,310	2,476	2,196
Contribution to pension scheme — defined contribution plans	5	—	—
Discretionary bonuses	144	—	—
Inducement fee to join or upon joining the Group	—	—	—
Compensation for loss of office	—	—	—
	2,459	2,476	2,196

	Number of individuals Year ended 31 December		
	2019	**2020**	**2021**
Emoluments bands			
HK$1 to HK$1,000,000	4	4	3

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2019 is set out below:

Name	**Fees**	**Salary**	**Discretionary bonuses**	**Allowance and benefits in kind**	**Employer's contribution to a retirement benefit scheme**	**Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director							
Zhao Liang	—	701	—	—	—	—	701
Total	—	701	—	—	—	—	701

The remuneration of every director and the chief executive for the year ended 31 December 2020 is set out below:

Name	Fees	Salary	Discretionary bonuses	Allowance and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director							
Zhao Liang	—	720	—	—	—	—	720
Total	—	720	—	—	—	—	720

The remuneration of every director and the chief executive for the year ended 31 December 2021 is set out below:

Name	Fees	Salary	Discretionary bonuses	Allowance and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors							
Zhao Liang	—	840	—	—	—	—	840
Lei Wai Hoi *(Note (i))*	—	622	—	—	12	—	634
Total	—	1,462	—	—	12	—	1,474

Note:

(i) Appointed on 31 May 2021.

(c) Pension costs — defined contribution retirement plans

The Group provides a mandatory provident fund scheme (the "**MPF Scheme**") for its staff in Hong Kong under the requirement of the Hong Kong Mandatory Provident Fund Scheme Ordinance ("**MPF Scheme Ordinance**"). Under the current MPF scheme, the Group's contributions are calculated at 5% of the employees' relevant income as defined in the MPF Scheme Ordinance up to a maximum of HK$1,500 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is more than HK$7,100 per month. All benefits derived from the mandatory contribution must be preserved until the employee reaches the retirement age of 65 subject to certain exceptions. The assets of the MPF scheme are held separately from those of the Group in independently administered funds.

As stipulated by the rules and regulations in PRC, the Group contributes to state-sponsored retirement plan for its employees in PRC. The employees contribute up to 8% of their basic salaries, while the Group contributes to retirement plans approximately at 16% to 20% of the basic salaries of its employees in PRC and has no further obligations for the actual payment of pensions or post retirement benefits. The state-sponsored retirement plan are responsible for the entire pensions obligations payable to retired employees.

During the years ended 31 December 2019, 2020 and 2021, the Group has no forfeited contributions that were able to be utilized by the Group to reduce its contributions.

(d) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits and termination benefits during the Track Record Period.

(e) Consideration provided to third parties for making available directors' services

During the Track Record Period, the Group did not pay any consideration to any third parties for making available directors' services.

(f) Information about loans, quasi-loans and other dealings in favor of the directors controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealing arrangements in favor of directors, their controlled bodies corporate and connected entities during the Track Record Period.

9 Finance costs, net

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
Interest income	12	18	54
Finance costs			
Interest expenses on borrowings	(189)	(427)	(652)
Interest expenses on bills arrangement	(233)	(208)	(69)
Interest elements of lease liabilities	(13)	(36)	—
Interest elements of provision for reclamation and mine closure	—	(107)	(113)
Finance costs, net	(423)	(760)	(780)

10 Income tax expense

PRC Corporate Income Tax has been provided for at the rate of 25% for the Track Record Period on the estimated assessable profit for the year. In accordance with the Income Tax Law of the PRC, the Group's major operating subsidiary, Yixiang New Energy is subject to a tax rate of 15% for the years ended 31 December 2020 and 2021, and Yixiang Graphite is subject to a tax rate of 15% for the year ended 31 December 2021 as they are eligible for the tax concession granted by the PRC government as a high-tech enterprise in the years specified.

According to the Corporate Income Tax Law of the PRC, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profit earned after 1 January 2008.

No Hong Kong profits tax has been provided for Track Record Period since there was no tax assessable profit generated from Hong Kong. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

The amount of income tax expense in the consolidated statements of comprehensive income represents:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
— PRC corporate income tax	5,798	9,913	6,630
Deferred income tax			
— Reversal of temporary differences	1,376	673	1,133
— Impact of change in tax rate	—	—	(249)
Income tax expense	7,174	10,586	7,514

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the domestic tax rate applicable to the profit or loss before income tax expense of the entities in the respective countries as follows:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	31,723	48,445	60,839
Tax calculated at domestic tax rates applicable to the profit or loss in respective operations	7,931	11,948	9,004
Expenses not deductible for tax purposes	130	148	592
Remeasurement of deferred tax — change in tax rate	—	—	(249)
Research and development tax credit	(887)	(1,510)	(1,939)
Tax losses for which no deferred tax asset has been recognized	—	—	106
Income tax expense	7,174	10,586	7,514

The weighted average applicable tax rate was 23%, 22% and 12% for the years ended 31 December 2019, 2020 and 2021, respectively.

11 Earnings per share

The calculation of the basic earnings per share for the year is based on the Group's profit attributable to the owner of the Company and the weighted average number of ordinary shares in issue.

In determining the weighted average number of ordinary shares in issue during the Track Record Period, the ordinary shares issued upon the incorporation of the Company were deemed to be issued on 1 January 2019 as if the Company has been incorporated by then.

	Year ended 31 December		
	2019	**2020**	**2021**
Weighted average number of ordinary shares in issue	1	1	1
Group's profit attributable to the owner of the Company *(RMB'000)*	24,549	36,884	53,325
Basic and diluted earnings per share *(RMB'000)*	24,549	36,884	53,325

The basic and diluted earnings per share for the years ended 31 December 2019, 2020 and 2021 were the same because there were no dilutive potential ordinary shares.

The earnings per share presented above has not been taken into account the proposed [REDACTED] pursuant to the resolutions in writing of the shareholder passed on [●] because the proposed [REDACTED] has not become effective as at the date of this report.

12 Property, plant and equipment

	Construction in progress *RMB'000*	Plant and buildings *RMB'000*	Mining structures *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture and fixtures *RMB'000*	Total *RMB'000*
As at 1 January 2019							
Cost	822	35,617	—	48,587	4,868	1,886	91,780
Accumulated depreciation	—	(10,671)	—	(30,922)	(3,833)	(1,220)	(46,646)
Net book amount	822	24,946	—	17,665	1,035	666	45,134
Year ended 31 December 2019							
Opening net book amount	822	24,946	—	17,665	1,035	666	45,134
Additions	14,615	370	—	1,893	5,459	61	22,398
Transfers	(14,749)	1,654	9,929	3,166	—	—	—
Disposals	—	—	—	(13)	(410)	—	(423)
Depreciation	—	(1,742)	—	(3,258)	(1,231)	(332)	(6,563)
Closing net book amount	688	25,228	9,929	19,453	4,853	395	60,546
As at 31 December 2019							
Cost	688	37,641	9,929	53,376	9,079	1,947	112,660
Accumulated depreciation	—	(12,413)	—	(33,923)	(4,226)	(1,552)	(52,114)
Net book amount	688	25,228	9,929	19,453	4,853	395	60,546
Year ended 31 December 2020							
Opening net book amount	688	25,228	9,929	19,453	4,853	395	60,546
Additions	12,406	4,431	—	2,981	959	129	20,906
Transfers	(13,094)	1,981	1,655	8,864	—	594	—
Disposals	—	—	—	(530)	(1,215)	—	(1,745)
Depreciation	—	(2,175)	(215)	(3,780)	(1,351)	(322)	(7,843)
Closing net book amount	—	29,465	11,369	26,988	3,246	796	71,864
As at 31 December 2020							
Cost	—	44,053	11,584	60,086	6,017	2,670	124,410
Accumulated depreciation	—	(14,588)	(215)	(33,098)	(2,771)	(1,874)	(52,546)
Net book amount	—	29,465	11,369	26,988	3,246	796	71,864
Year ended 31 December 2021							
Opening net book amount	—	29,465	11,369	26,988	3,246	796	71,864
Additions	13,021	7,873	856	5,220	371	106	27,447
Transfers	(10,850)	1,491	3,504	5,855	—	—	—
Disposals	—	—	—	—	(30)	—	(30)
Depreciation	—	(4,763)	(255)	(4,611)	(1,432)	(312)	(11,373)
Closing net book amount	2,171	34,066	15,474	33,452	2,155	590	87,908
As at 31 December 2021							
Cost	2,171	53,417	15,944	71,161	6,220	2,776	151,689
Accumulated depreciation	—	(19,351)	(470)	(37,709)	(4,065)	(2,186)	(63,781)
Net book amount	2,171	34,066	15,474	33,452	2,155	590	87,908

Depreciation expense has been recorded as below for the years ended 31 December 2019, 2020 and 2021.

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	4,638	6,184	9,477
General and administrative expenses	1,113	1,105	1,092
Research and development expenses	—	207	324
	5,751	7,496	10,893
Capitalised as mining structures	812	347	480
	6,563	7,843	11,373

Certain motor vehicles with carrying amounts of RMB4,209,000 as at 31 December 2019 were pledged as security for the Group's other borrowings (Note 22). No assets were pledged for security as at 31 December 2020 and 2021.

13 Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognized in the consolidated statements of financial position

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Right-of-use assets			
Land use rights	2,359	2,945	5,703
Properties	1,765	1,645	1,525
Equipment	1,675	3,018	2,705
	5,799	7,608	9,933
Lease liabilities			
Current	680	1,169	1,143
Non-current	164	976	383
	844	2,145	1,526

Additions to the right-of-use assets for the years ended 31 December 2019, 2020 and 2021 were RMB1,803,000, RMB2,142,000 and RMB3,232,000 respectively.

(ii) Amounts recognized in the consolidated statements of comprehensive income

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation charge of right-of-use assets			
Land-use rights	63	63	474
Properties	120	120	120
Equipment	128	150	313
	311	333	907
Interest expense (included in finance costs)	13	36	—
Expense relating to short-term leases (included in cost of sales and selling and distribution expenses)	2,000	—	760

The total cash outflow for leases during the years ended 31 December 2019, 2020 and 2021 were RMB2,972,000, RMB877,000 and RMB4,611,000 respectively.

(iii) The Group's leasing activities

The Group leases offices, a warehouse and equipment. Rental contracts are typically made for fixed periods of 1 to 20 years. The Group held land-use rights which cover a period of 30 to 50 years. Payments associated with lease terms of 1 year or less are recognized on a straight-line basis as an expense in profit or loss.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

There is no extension option or termination option included in the leases of office and equipment of the Company.

14 Mining rights

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Opening net carrying amount	13,034	20,562	27,013
Additions	8,341	8,288	—
Amortization	(813)	(1,837)	(1,108)
Closing net carrying amount	20,562	27,013	25,905

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Gross carrying amount	21,375	29,663	29,663
Accumulated amortization	(813)	(2,650)	(3,758)
Net carrying amount	20,562	27,013	25,905

15 Financial instruments by category

The Group's financial instruments include the following:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at amortized cost			
Trade and bills receivables	113,632	160,863	148,645
Deposits and other receivables	80	94	101
Cash and cash equivalents	1,861	10,007	33,934
	115,573	170,964	182,680

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities at amortized cost			
Trade payables	16,160	20,965	18,608
Accruals and other payables	7,509	14,022	14,019
Amounts due to related parties and non-controlling interests	77,696	82,749	73,127
Borrowings	16,156	18,500	10,000
Lease liabilities	844	2,145	1,526
	118,365	138,381	117,280

16 Inventories

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,065	4,030	6,820
Work in progress	7,982	8,044	5,739
Finished goods	27,012	14,224	6,315
	36,059	26,298	18,874
Provision for inventories	(636)	(306)	—
Total	35,423	25,992	18,874

The cost of inventories recognized as expenses and included in cost of sales in the consolidated statements of comprehensive income for the years ended 31 December 2019, 2020 and 2021 were RMB26,562,000, RMB42,810,000 and RMB51,660,000, respectively.

Provision for impairment of inventories amounted to RMB290,000 for the year ended 31 December 2019 and reversal of impairment of inventories of RMB330,000 and RMB306,000 arising from an increase in net realisable value for the years ended 31 December 2020 and 2021, were included in cost of sales in the consolidated statements of comprehensive income.

17 Trade and bills receivables

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	55,114	79,065	55,539
Bills receivables	61,825	85,454	98,225
Trade and bills receivables	116,939	164,519	153,764
Less: loss allowance	(3,307)	(3,656)	(5,119)
Total	113,632	160,863	148,645

The Group's credit terms granted to third-party customers mainly range from 30 to 90 days.

As at 31 December 2019, 2020 and 2021, the ageing analysis of the third-party trade receivables, based on invoice date, are as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Up to 90 days	46,954	57,628	36,622
91–180 days	3,587	12,725	11,247
181–270 days	993	3,166	2,442
271–365 days	775	755	2
Over 1 year	2,805	4,791	5,226
	55,114	79,065	55,539

Movements in the loss allowance of trade receivables are as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	(3,501)	(3,307)	(3,656)
Reversal of/(provision for) impairment of trade receivables	194	(349)	(1,463)
	(3,307)	(3,656)	(5,119)

The creation and release of provision for impaired receivables have been included in the consolidated statements of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The maximum exposure to credit risk at the reporting date is the carrying values of trade and bills receivables disclosed above. The Group did not hold any collateral as security.

The Group's bills receivables generally have maturity period of 6 to 12 months. As at 31 December 2019, 2020 and 2021, the ageing analysis of the bills receivables, based on the bills receiving date, are as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Up to 90 days	41,865	54,929	56,116
91–180 days	14,860	26,245	39,752
181–270 days	5,100	3,330	2,257
271–365 days	—	950	100
	61,825	85,454	98,225

The Group transferred certain bank's acceptance bills amounting to approximately RMB14,000,000 and RMB4,500,000 with recourse in exchange for cash as at 31 December 2019 and 2020 respectively. The discounted bank's acceptance bills and the related proceeds of the same amount are included in the Group's trade and bills receivables and short-term borrowings (Note 22) respectively at the end of the reporting period. The transactions have been accounted for as collateralised bank advances. There was no collateralised bank advances arrangement as at 31 December 2021.

The Group endorsed certain of its bills receivables with full recourse to the creditors. In the event of default by the debtors, the Group is obliged to pay the creditors the amount in default. The Group is therefore exposed to the risks of credit losses and late payment in respect of its endorsed bills receivables.

The endorsement transactions do not meet the requirements for derecognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the endorsed bills receivables. As at 31 December 2019, 2020 and 2021, bills receivables and the corresponding trade and other payables of RMB7,465,000, RMB15,472,000 and RMB16,404,000, respectively, continue to be recognized in the Group's consolidated financial statements although they have been legally transferred to the creditors. The proceeds of the endorsement transactions are included in trade payables until the related bills receivables are collected or the Group settles any losses suffered by the creditors. As these bills receivables have been legally transferred to the creditors, the Group does not have the authority to determine the disposition of the bills receivables.

The carrying amounts of trade and bills receivables are denominated in RMB.

18 Deposits, prepayments and other receivables

The Group

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Deposits	20	57	20
Prepaid [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepayments for property, plant and equipment	3,039	244	162
Prepayments for raw materials	—	1,596	1,848
Other prepayments	100	—	876
Other receivables	60	37	81
	[REDACTED]	[REDACTED]	[REDACTED]
Less: non-current portion	(3,039)	(244)	(1,038)
Current portion	[REDACTED]	[REDACTED]	[REDACTED]

As at 31 December 2019, 2020 and 2021, the carrying amounts of deposits, prepayments and other receivables approximate their fair values and are denominated in the following currencies:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
RMB	3,219	2,770	5,457
Hong Kong dollars ("**HK$**")	—	1,918	3,088
United Stated dollars ("**US$**")	—	122	26
	3,219	4,810	8,571

The Company

	As at 31 December	
	2020	**2021**
	RMB'000	*RMB'000*
Prepaid [REDACTED]	[REDACTED]	[REDACTED]
Deferred [REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]

The deferred [REDACTED] are incurred in connection with the [REDACTED] the Company and will be deducted from equity upon [REDACTED] the Company.

19 Cash and cash equivalents

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks	1,823	9,987	33,930
Cash on hand	38	20	4
	1,861	10,007	33,934
Maximum exposure to credit risk	1,823	9,987	33,930

The Group's cash and cash equivalents and bank deposits are denominated in RMB.

As at 31 December 2019, 2020 and 2021, cash and cash equivalents of approximately RMB1,823,000, RMB9,987,000 and RMB33,930,000, respectively, of the Group were denominated in RMB and deposited with banks in the PRC. The conversion of the RMB denominated balance into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2020 and 2021, cash and cash equivalents of approximately RMB318,000 and RMB594,000, respectively, were deposited with a bank in the PRC for mine and land reclamation purpose. The withdrawal of funds from the account is subject to the approval of the local authority. The approval procedures are administrative and the Group expected it would take a short period of time to make the funds readily available to meet its cash commitments.

20 Trade payables

Trade payables at the end of each reporting period comprise amounts outstanding to contract creditors and suppliers. The credit period taken for trade purchase is generally 0 to 180 days. The ageing analysis of the trade payables, based on invoice date, are as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Up to 90 days	11,242	17,054	13,596
91–180 days	4,234	1,600	3,385
181–365 days	684	2,066	1,589
Over 1 year	—	245	38
	16,160	20,965	18,608

As at 31 December 2019, 2020 and 2021, the carrying amounts of trade payables are denominated in RMB and approximate their fair values.

21 Accruals and other payables

The Group

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Accrued staff expense	2,701	2,423	1,633
Accrued construction cost	3,845	7,752	8,151
Other tax payable	2,385	3,309	2,846
Rental expense	2,000	—	—
Accrued [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	1,664	1,646	2,664
	[REDACTED]	[REDACTED]	[REDACTED]

As at 31 December 2019, 2020 and 2021, the carrying amounts of accruals and other payables approximate their fair values and are denominated in the following currencies:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
RMB	12,595	16,357	16,400
HK$	—	3,397	2,050
US$	—	—	48
	12,595	19,754	18,498

The Company

	As at 31 December	
	2020	**2021**
	RMB'000	*RMB'000*
Accrued staff expense	—	623
Accrued [REDACTED]	4,624	3,204
Others	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]

22 Borrowings

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings			
— Bank loans	—	14,000	10,000
— Bills arrangement	14,000	4,500	—
Other borrowings	2,156	—	—
	16,156	18,500	10,000

The Group's bank borrowings are repayable based on the scheduled repayment dates as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	16,156	18,500	10,000

The weighted effective interest rates as at 31 December 2019, 2020 and 2021 were follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings			
— Bank loans	4.87%	4.79%	4.85%
— Bills arrangement	3.67%	2.59%	N/A
Other borrowings	8.00%	N/A	N/A

Bank advances for discounted bills with recourse have been accounted for as collateralised bank advances. The discounted bank's acceptance bills and the related proceeds of the same amount are included in the Group's trade and bills receivables (Note 17) and borrowings respectively at the end of the reporting period.

As at 31 December 2019, other borrowings of RMB2,156,000 were secured by the pledge of certain motor vehicles with carrying amounts of RMB4,209,000 as at 31 December 2019, and the guarantee provided by a shareholder of the Group and independent third parties.

As at 31 December 2020 and 2021, bank loans of RMB10,000,000 were secured by the guarantee provided by an independent third party. The remaining bank loans of RMB4,000,000 as at 31 December 2020 were unsecured.

There were no financial covenants attached to the Group's borrowings facilities as at 31 December 2019, 2020 and 2021.

The carrying amounts of bank and other borrowings are denominated in RMB. The Group had no unused facilities as at 31 December 2019 and 2020.

On 3 August 2021, the Group has obtained a bank facility, pursuant to which a facility of RMB20,000,000 was granted to the Group for 1 year from the date of the facility letter, with terms and conditions being negotiated and agreed with the bank from time to time upon drawdown. [As at 31 December 2021 and up to the date of this report, no drawdown was made by the Group.]

23 Deferred income tax

As at 31 December 2019, 2020 and 2021, deferred income tax is calculated in full on temporary differences under the liability method using a principal tax rate of 16.5% for Hong Kong and 25% for PRC.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax assets	2,506	779	271
Deferred income tax liabilities	(2,516)	(1,462)	(1,838)
	(10)	(683)	(1,567)

The analysis of deferred tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax assets (to be recovered within 12 months)	2,745	1,196	421
Deferred income tax assets (to be recovered after more than 12 months)	826	909	767
Deferred income tax liabilities (to be settled after more than 12 months)	(3,581)	(2,788)	(2,755)
Total	(10)	(683)	(1,567)

The movement on the deferred income tax assets/(liabilities) is as follows:

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	1,366	(10)	(683)
Charged to the consolidated statements of comprehensive income	(1,376)	(673)	(884)
At the end of the year	(10)	(683)	(1,567)

The movement in gross deferred income tax assets and liabilities during the years ended 31 December 2019, 2020 and 2021, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for impairment of trade receivables	Decelerated tax depreciation	Unrealized profits	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	875	20	1,808	162	2,865
(Charged)/credited to the consolidated statements of comprehensive income	(49)	(20)	698	77	706
At 31 December 2019 and 1 January 2020	826	—	2,506	239	3,571
Credited/(charged) to the consolidated statements of comprehensive income	83	—	(1,727)	178	(1,466)
At 31 December 2020 and 1 January 2021	909	—	779	417	2,105
Charged to the consolidated statements of comprehensive income	(142)	—	(508)	(267)	(917)
At 31 December 2021	767	—	271	150	1,188

Deferred income tax liabilities

	Accelerated tax depreciation
	RMB'000
At 1 January 2019	1,499
Charged to the consolidated statements of comprehensive income	2,082
At 31 December 2019 and 1 January 2020	3,581
Credited to the consolidated statements of comprehensive income	(793)
At 31 December 2020 and 1 January 2021	2,788
Credited to the consolidated statements of comprehensive income	(33)
At 31 December 2021	2,755

As at 31 December 2019, 2020 and 2021, the Group's subsidiaries in the PRC has unremitted earnings of RMB97,452,000, RMB138,873,000 and RMB194,206,000 respectively. The Group did not recognize deferred income tax liabilities in respect of temporary differences relating to the withholding tax on the unremitted profits of subsidiaries that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future. Therefore, the related temporary difference will not be reversed and will not be taxable in the foreseeable future.

24 Share capital and reserves

(a) *Share capital*

	Number of share	*RMB'000*
Issued and fully paid share capital		
At 31 December 2019, 31 December 2020 and 1 January 2021	—	—
Initial share issued upon incorporation	1	—*
At 31 December 2021	1	—*

Note:* Less than RMB1,000 and rounded as nil.

Pursuant to the shareholder's written resolution dated [●] and conditional on the share premium account of the Company being credited as a result of [REDACTED] pursuant to the proposed [REDACTED] the [REDACTED], the Company issued additional [REDACTED] by way of [REDACTED] of approximately [REDACTED] standing to the credit of the Company's share premium account.

Details of issuance of shares of the Company during the Reorganization are set out in Note 1.2.

(b) *Reserves*

The Group

	Share premium *(Note (i))* *RMB'000*	Statutory reserve *(Note (ii))* *RMB'000*	Capital reserve *(Note (iii))* *RMB'000*	Other reserve *(Note (iv))* *RMB'000*	Retained earnings *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
Balance at 1 January 2019	—	2,670	10,000	—	73,572	—	86,242
Comprehensive income							
Profit for the year	—	—	—	—	24,549	—	24,549
Total comprehensive income	—	—	—	—	24,549	—	24,549
Transaction with owner							
Appropriation to statutory reserve	—	669	—	—	(669)	—	—
	—	669	—	—	(669)	—	—

	Share premium *(Note (i))* *RMB'000*	**Statutory reserve** *(Note (ii))* *RMB'000*	**Capital reserve** *(Note (iii))* *RMB'000*	**Other reserve** *(Note (iv))* *RMB'000*	**Retained earnings** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total** *RMB'000*
Balance at 31 December 2019 and 1 January 2020	—	3,339	10,000	—	97,452	—	110,791
Comprehensive income							
Profit for the year	—	—	—	—	36,884	975	37,859
Total comprehensive income	—	—	—	—	36,884	975	37,859
Transactions with owner							
Capital injection of non-controlling interests	—	—	—	—	—	4,941	4,941
Reorganization *(Note 1.2)*	158,693	—	(158,670)	—	975	(5,916)	(4,918)
Appropriation to statutory reserve	—	1,441	—	—	(1,441)	—	—
Appropriation to other reserve	—	—	—	421	(421)	—	—
	158,693	1,441	(158,670)	421	(887)	(975)	23
Balance at 31 December 2020 and 1 January 2021	158,693	4,780	(148,670)	421	133,449	—	148,673
Comprehensive income							
Profit for the year	—	—	—	—	53,325	—	53,325
Total comprehensive income	—	—	—	—	53,325	—	53,325
Transactions with owner							
Appropriation to statutory reserve	—	483	—	—	(483)	—	—
Appropriation to other reserve	—	—	—	517	(517)	—	—
	—	483	—	517	(1,000)	—	—
Balance at 31 December 2021	158,693	5,263	(148,670)	938	185,774	—	201,998

Notes:

(i) Share premium represents the difference between the net asset value of the subsidiaries and the nominal value of Company's shares issued in exchange for the acquisition of Yixiang Graphite and Yixiang New Energy pursuant to the Reorganization.

(ii) In accordance with the relevant laws and regulations of the PRC, the PRC subsidiaries are required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or for capitalization as paid-up capital.

(iii) Capital reserve represents the combined share capital of the subsidiaries comprising the Group before the completion of the Reorganization, and contributed surplus after the completion of Reorganization.

(iv) Pursuant to the relevant PRC regulations, the Group is required to transfer safety fund at fixed rates based on the production volume, to a specific reserve account. The fund could be utilized when expenses or capital expenditures on safety measures are incurred. The amount of safety fund utilized would be transferred from the specific reserve account to retained earnings.

The Company

	Share premium	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 3 August 2020 (date of incorporation)	—	—	—
Comprehensive loss			
Loss for the year	—	(8,011)	(8,011)
Total comprehensive loss	—	(8,011)	(8,011)
Transaction with the owner			
Reorganization *(Note 1.2)*	158,693	—	158,693
	158,693	—	158,693
Balance at 31 December 2020	158,693	(8,011)	150,682
Balance at 1 January 2021	158,693	(8,011)	150,682
Comprehensive loss			
Loss for the year	—	(7,644)	(7,644)
Total comprehensive loss	—	(7,644)	(7,644)
Balance at 31 December 2021	158,693	(15,655)	143,038

25 Related party transactions and balance with non-controlling interests

(a) Balances and transactions with related parties

For the purposes of these Historical Financial Information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities that are controlled or jointly controlled by a person who is a related party of the Group. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals were related parties that had transactions or balances with the Group during the Track Record Period:

Name	**Relationship with the Group**
Mr. Zhao Liang	Shareholder and executive director
Mr. Zhao Changshan	Former shareholder and close family member of Mr. Zhao Liang
Mr. Zhao Changhai	Close family member of Mr. Zhao Liang
Mr. Zhao Ming	Former shareholder and close family member of Mr. Zhao Liang
Ms. Zhang Yuqin	Close family member of Mr. Zhao Liang
Ms. Sun Yao	Close family member of Mr. Zhao Liang

The Group

	As at 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Non-trade balances			
Amounts due to shareholders			
— Mr. Zhao Liang	42,645	42,957	73,127
— Mr. Zhao Changshan	26,092	26,092	—
— Mr. Zhao Ming	8,759	8,759	—
Amounts due to other related party			
— Mr. Zhao Changhai	200	—	—
	77,696	77,808	73,127

[The amount due to Mr. Zhao Liang amounted to HK$73,127,000 as at 31 December 2021 would be settled by way of capitalization, and will take place immediately prior to the [REDACTED] on the [REDACTED].]

The Company

	As at 31 December	
	2020	**2021**
	RMB'000	*RMB'000*
Non-trade balances		
Amount due to a shareholder		
— Mr. Zhao Liang	3,983	5,334

Amounts due to related parties were unsecured, interest free and repayable on demand.

Transactions with related parties

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefit expenses received as employees of the Group			
Mr. Zhao Changshan	702	720	720
Mr. Zhao Changhai	125	146	129
Ms. Zhang Yuqin	702	720	720
Ms. Sun Yao	756	756	756

Terms of employment are determined and agreed between the relevant parties.

As at 31 December 2019, other borrowings of RMB1,512,000 were secured by the guarantee provided by Mr. Zhao Liang.

(b) Balance with non-controlling interests

As at 31 December 2020, the Group has an amount due to non-controlling interests of RMB4,941,000 which was non-trade in nature, unsecured, interest-free and repayable on demand.

(c) Key management personnel compensation

Key management includes directors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Wages, salaries, bonuses and allowances	1,513	1,323	2,448
Pension costs — defined contribution plans	22	—	12
	1,535	1,323	2,460

26 Notes to the consolidated statements of cash flows

(a) Reconciliation of profit before income tax to cash generated from operations:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Cash flows from operating activities			
Profit before income tax	31,723	48,445	60,839
Adjustments for:			
Depreciation of property, plant and equipment	5,751	7,496	10,893
Depreciation of right-of-use assets	311	333	907
Amortization of mining rights	813	1,837	1,108
Amortization of other intangible assets	—	8	20
(Gains)/losses on disposal of property, plant and equipment, net	(95)	335	(12)
(Reversal of)/provision for impairment of financial assets	(194)	349	1,463
Finance costs	435	778	834
Finance income	(12)	(18)	(54)
Operating profit before working capital changes	38,732	59,563	75,998
Changes in working capital			
Trade and bills receivables	(2,230)	(47,580)	10,755
Deposits, prepayments and other receivables	815	(2,820)	(1,156)
Inventories	(5,742)	9,431	7,118
Trade payables	(3,805)	4,805	(2,357)
Accruals and other payables	(7,386)	3,252	(1,655)
Contract liabilities	(227)	9,315	(4,448)
Net cash generated from operations	20,157	35,966	84,255

(b) In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Net book amount	423	1,745	30
Gains/(losses) on disposal of property, plant and equipment, net	95	(335)	12
Proceeds from disposal of property, plant and equipment	518	1,410	42

(c) The reconciliation of liabilities arising from financing activities

	Borrowings	Amounts due to related parties and non-controlling interests	Leases	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	4,255	75,074	—	79,329
Proceeds from bank and other borrowings	12,540	—	—	12,540
Repayments of bank borrowings	(639)	—	—	(639)
Advances from related parties	—	31,424	—	31,424
Repayments to related parties	—	(28,802)	—	(28,802)
Repayments of principal elements of lease liabilities	—	—	(959)	(959)
Interest paid	(422)	—	(13)	(435)
Non-cash items				
Interest expense	422	—	13	435
Addition — leases	—	—	1,803	1,803
At 31 December 2019 and 1 January 2020	16,156	77,696	844	94,696
Proceeds from bank and other borrowings	18,500	—	—	18,500
Repayments of bank borrowings	(16,156)	—	—	(16,156)
Advances from related parties	—	9,681	—	9,681
Repayments to related parties	—	(9,569)	—	(9,569)
Repayments of principal elements of lease liabilities	—	—	(841)	(841)
Interest paid	(635)	—	(36)	(671)
Non-cash items				
Interest expense	635	—	36	671
Addition — leases	—	—	2,142	2,142
Reorganization *(Notes 1.2(g) and (h))*	—	4,941	—	4,941
At 31 December 2020 and 1 January 2021	18,500	82,749	2,145	103,394
Proceeds from bank borrowings	3,000	—	—	3,000
Repayments of bank borrowings	(11,500)	—	—	(11,500)
Advances from related parties	—	1,351	—	1,351
Repayments to related parties	—	(6,032)	—	(6,032)
Acquisition of non-controlling interests pursuant to Reorganization	—	(4,941)	—	(4,941)
Repayments of principal elements of lease liabilities	—	—	(1,120)	(1,120)
Interest paid	(721)	—	—	(721)
Non-cash items				
Interest expense	721	—	—	721
Addition — leases	—	—	501	501
At 31 December 2021	10,000	73,127	1,526	84,653

27 Commitments

	Year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Commitments for the			
— Acquisition of plant and equipment	—	3,400	—

28 Dividend

No dividend has been paid or declared by the Company since its incorporation and up to the date of this report.

29 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2019, 2020 and 2021.

30 Subsequent events

Save as disclosed in Note 24 to the consolidated financial statements, there are no material subsequent events undertaken by the Company or by the Group after 31 December 2021 and up to the date of this report.

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 31 December 2021 and up to the date of this report. No dividend or distribution has been declared or made by the Company in respect of any period subsequent to 31 December 2021.