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You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements as of and for each of the years ended December 31, 2019, 2020 and 2021, and the six months ended June 30, 2022, and the accompanying notes included in the Accountants' Report set out in Appendix IA to this prospectus, and the consolidated financial statements of HPL as of and for each of the years ended December 31, 2019, 2020 and the eleven months ended November 30, 2021 and the notes thereto included Appendix IB to this prospectus. The Accountants' Report has been prepared in accordance with IFRS. Potential investors should read the Accountants' Report in its entirety and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors."

OVERVIEW

We are a company with business across the entire nickel industry value chain. For nickel product trading, we ranked first globally in terms of nickel product trading volume in 2021, and first in China in terms of nickel ore trading volume in 2021, according to the CIC Report. For nickel product production, the HPAL project (the "**HPAL project**") on the Obi Island, Indonesia, which we have jointly developed with our Indonesian Partner, is one of the most technically advanced nickel-cobalt compound hydrometallurgy projects worldwide, and has the lowest cash cost among all nickel-cobalt compound production projects worldwide, according to the CIC Report.

Leveraging in-depth industry knowledge accumulated over the years, we have built a comprehensive product and service portfolio covering multiple areas across the nickel industry value chain, from upstream sourcing of nickel resources, trading and production of nickel products, to equipment manufacturing and sale. We continue to expand upstream and downstream in the nickel industry, vertically integrating across the nickel industry value chain, our products are widely used in various downstream sectors including the NEV and stainless steel industries.

We generate revenues primarily from the trading and production of nickel products, and to a lesser extent, equipment manufacturing and sale and other businesses:

Trading of nickel products. We have been engaged in the trading of nickel products since our inception in 2009, establishing solid, long-term business relationships with suppliers in the Philippines and Indonesia. In 2019, 2020 and 2021, and the six months ended June 30, 2021 and 2022, nickel product trading contributed 69.5%, 64.5%, 70.4%, 70.1% and 42.1% of our revenues, respectively.

Production of nickel products. We are also the first nickel trading company in China to expand our product and service offerings to cover nickel product production. We currently have a number of ferronickel and nickel-cobalt compound production lines in operation and under construction in Suqian, Jiangsu Province, China and Obi Island, Indonesia. In 2019, 2020 and 2021 and the six

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months ended June 30, 2021 and 2022, nickel product production contributed 25.2%, 21.2%, 19.7%, 19.4% and 49.6% of our revenues, respectively.

Equipment manufacturing and sale. We manufacture and sell a variety of equipment used in the production of nickel products, which contributed 4.5%, 13.2%, 8.1%, 8.6% and 6.7% of our revenues in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

Others. we also generate a small portion of revenue from other products and services, primarily including (i) sale of wastes and provision of related services, (ii) vessel sublease, and (iii) sale of auxiliary materials to HJF, primarily including semi-coke and coke.

During the Track Record Period, our financial results demonstrated our robust business operation capabilities. While our financial performance was temporarily affected by the Indonesian government's export ban in 2020, our revenue and net profit quickly recovered in 2021, primarily due to (i) increases in the average selling prices and sales volume of nickel ore and ferronickel for our trading business, and (ii) revenue and net profit contribution from HPL to our trading business and production business since the commencement of production of phase I of the HPAL project in May 2021. Our revenue and net profit increased significantly in the six months ended June 30, 2022 compared to the same period in 2021, primarily because we began to generate revenue from the sales of our self-produced nickel-cobalt compounds since November 30, 2021 as a result of our consolidation of HPL. As a result of the foregoing, in 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our revenue was RMB9,347.4 million, RMB7,755.2 million, RMB12,449.3 million, RMB4,088.3 million and RMB9,978.3 million, respectively, and our net profit was RMB566.7 million, RMB518.3 million, RMB1,260.0 million, RMB89.0 million and RMB2,289.6 million, respectively. See “— Results of Operations” for more details.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations are affected by general factors affecting the nickel industry, including global and China's macroeconomic conditions and changes in policies and regulations adopted by governments of countries and regions where we operate.

Besides the general factors affecting the nickel industry, our business, historical financial condition and results of operations have been affected by the following specific factors which we believe will continue to affect our financial condition and results of operations in the future:

- Fluctuation in nickel prices and the supply and demand dynamics of nickel products;
- Expansion of production capacity and diversification of product portfolio;
- Our ability to control costs and operating expenses; and
- Strategic investments and acquisitions.

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Fluctuation in Nickel Prices and the Supply and Demand Dynamics of Nickel Products

Our operations and financial performance are directly affected by the fluctuations in nickel prices. The price of nickel has been rapidly rising in the past few years, with the annual average price of nickel increasing from US\$9,595.2 per metal ton in 2016 to US\$13,913.9 per metal ton in 2019, dropping slightly to US\$13,790.4 per metal ton in 2020, and increasing to US\$18,487.7 per metal ton in 2021. The selling prices of our nickel products fluctuated in line with the fluctuation in nickel price over the same period. Such fluctuations are in turn affected by the upstream and downstream supply and demand dynamics of nickel products. Accordingly, our operations and financial performance depend on our ability to secure a stable supply of laterite nickel ore and ferronickel at competitive prices. We procure laterite nickel ore primarily from the Philippines and ferronickel from Indonesia. The supply of nickel and ferronickel may fluctuate, depending on resource availability and regulatory developments in the relevant markets, among others. For example, Indonesia imposed export bans on laterite nickel ore starting on January 1, 2020, as a result of which we could no longer procure laterite nickel ore from Indonesia since 2020. Nickel resources in the Philippines are also produced by a few major nickel mining companies. As such, our ability to maintain good business relationships with these nickel mining companies is crucial in ensuring our access to a sufficient level of laterite nickel ore. Moreover, the discovery and successful exploration of new nickel mines by new or existing competitors may affect the global nickel supply and the global prices of nickel, which may in turn result in fluctuations in our revenue and profitability.

In addition, our operations and sales tend to fluctuate with demands for our nickel products in the end markets we serve, including the NEV market and the stainless steel market. A number of factors can affect the demand for our nickel products in these end markets, including technological developments that could result in product or technological substitutions and the introduction of new laws, regulations and policies that can affect these end markets (including those that may have an indirect effect, such as policies on environmental protection and carbon emission reduction). China's nickel consumption increased from 1.0 million metal tons in 2016 to 1.4 million metal tons in 2021, representing a CAGR of 7.6% during the same period, and is expected to further increase to 2.4 million metal tons in 2026, representing a CAGR of 11.2% from 2021 to 2026. In 2021, the stainless steel market and the NEV market accounted for 67.7% and 21.7% of China's total nickel consumption, respectively. As high nickel content ternary battery become more mainstream, the NEV market is expected to account for 44.8% of China's total nickel consumption in 2026. Our revenue and gross margin during a given period are also affected by demands for our products by our customers and the allocation of orders by our customers to us. As such, our ability to maintain good long-term relationships with our customers in the end markets is also a key factor in maintaining or increasing our profitability.

Expansion of Production Capacity and Diversification of Product Portfolio

Growth in our revenue and market share depends to a large extent on our ability to manage and expand our production capacity. As of the date of this prospectus, we operated two production facilities, including our Jiangsu Facilities in China and our HPAL project in Indonesia, for the

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production of ferronickel and nickel-cobalt compounds, respectively. See “Business — Production of Nickel Products — Production of Ferronickel — Jiangsu Facilities — Production Capacity” and “ — Production of Nickel-Cobalt Compounds — Production Capacity,” respectively, for more details. We are also constructing in Indonesia additional nickel-cobalt compounds production lines under our HPAL project, and ferronickel production lines under our RKEF project, among others. See “Business — Production Expansion Plan and Product Pipeline” for more details. We expect the products we are producing or plan to produce to be of high demand, and our expanding production capacities can accordingly help us expand market share and generate more profits. As such, although the construction of these production facilities is capital-intensive in nature and we may require a significant amount of funding through public or private equity offerings, debt financing or other sources to support our capital expenditure in relation to their construction, as well as their maintenance and repairing in the future, we expect that our production business can contribute significantly to our business growth. We intend to carefully and effectively manage our cash flow to ensure that we can meet the construction schedule of these projects.

Once our production facilities currently under construction are put into operation, we will be able to offer a more diversified product portfolio addressing different industries. In particular, the production lines of the HPAL project is capable of producing MHP, and will be capable of producing nickel sulfate and cobalt sulfate in the future, and we plan to flexibly adjust the allocation of production capacities among these nickel-cobalt compounds in response to the demand from our customers and the relative profit margins of these products. The production lines of the RKEF project will be capable of producing ferronickel and nickel matte in the future, and we plan to flexibly adjust the allocation of production capacities among these products in response to the demand from our customers and the relative profit margins of these products. With our diversified product portfolio addressing different markets, we believe that we can better manage our profit margin in the long term and have greater capabilities of catering to evolving market demand in the future.

Our Ability to Control Costs and Operating Expenses

Our competitiveness and long-term profitability are significantly dependent upon our ability to control our costs and operating expenses and maintain operational and production efficiency.

For our nickel product trading business, we primarily depend on a limited number of suppliers in the Philippines and Indonesia for the supply of a substantial portion of laterite nickel ore and ferronickel, the prices of which are determined principally by market forces and changes in governmental policies, as well as our bargaining power with our suppliers. Any significant increase in the prices of laterite nickel ore and ferronickel could have an adverse effect on our gross profit margins if we are unable to promptly pass such price increases to our customers. Our ability to effectively respond to these risks depend mainly on our ability to secure long-term and stable supply of laterite nickel ore and ferronickel at competitive prices, which in turn depends on our ability to maintain good business relationship with our suppliers. We have been making continuous efforts in maintaining good business relationships with our existing suppliers and seeking to further expand

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our upstream nickel resource channels, including looking for suppliers located in other countries and regions and making minority investment opportunities in nickel mines in Indonesia. We also have a dedicated team that monitors the market fluctuations of nickel prices in real time and purchases futures products to hedge against risks related to nickel price fluctuations.

In addition, for our nickel product production business, our price competitiveness and profitability are also dependent on our ability to control our production costs, including the cost of raw materials and energy, and maintain production efficiency. We have been continuously optimizing our production processes, including technological innovation, technical enhancements, equipment and machinery upgrade and process improvement to increase production efficiency and reduce energy consumption, in response to the risks in connection with rising production costs.

Strategic Investments and Acquisitions

We may from time to time pursue strategic investment and acquisition opportunities across the entire industry value chain with an aim to expand our business coverage to improve our resilience to the evolving market demand and strengthen our market positions in the nickel industry. For example, we acquired Xi'an Pengyuan, a nickel smelting machinery and equipment manufacturer, in 2018. In November 2021, we acquired an additional 18.0% equity interest in HPL, the project company for phases I and II of the HPAL project in which we originally held 36.9% equity interest, and HPL became our subsidiary subsequent to the acquisition. We also established CBL, our associate company, together with Contemporary Amperex Technology Co., Limited to expand our business into the field of new energy battery materials to extend further down the industry value chain. We are also actively looking into upstream opportunities to make investments or acquisitions in high-quality nickel mines.

We believe these investments and acquisitions can further expand our business coverage and contribute to our revenue and profit growth in the long term. However, investments and acquisitions may result in an increase in costs and expenses, including increase in financing, operation and transition costs, but without an immediate increase in revenue and/or profit. Acquisitions of entities with different margin compositions than our margins will also have an effect on our overall margins. In addition, the performance of acquired entities and business may be worse than expected, which may cause an adverse effect on our results of operation. We currently do not have any specific acquisition plans or targets and have not entered into any definitive agreements with any potential targets. We plan to prudently evaluate any potential investment opportunity to ensure that our investment could bring long-term value to our sustainable business growth.

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EFFECTS OF INDONESIAN GOVERNMENT'S EXPORT BAN ON OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Indonesia government introduced an export ban on nickel ore starting from January 1, 2020, as a result of which we could no longer procure nickel ore from Indonesia. This export ban has temporarily affected our nickel product trading business and financial performance in 2020:

- **Revenue and net profit.** Our revenue decreased by 17.0% from RMB9,347.4 million in 2019 to RMB7,755.2 million in 2020 and our net profit decreased by 8.5% from RMB566.7 million in 2019 to RMB518.3 million in 2020. In particular, revenue generated from our trading business decreased by 23.0% from RMB6,498.3 million in 2019 to RMB5,005.5 million in 2020;
- **Sales volume.** The sales volume of nickel ore for our trading business decreased by 39.4% from 17,633,427 metric tons in 2019 to 10,677,613 metric tons in 2020;
- **Inventory.** Our inventory balance was relatively high as of December 31, 2019, as we increased our nickel ore inventory in late 2019 in anticipation of the export ban;
- **Finance costs.** As a result of the export ban, the sales volume of our trading business decreased, and as a result we required a lower amount of import bill advance under letter of credit in connection with the import of nickel products for our trading business, leading to a decrease in interest on bank borrowings. As a result, our finance costs decreased by 36.6% from RMB66.6 million in 2019 to RMB42.2 million in 2020; and
- **Nickel content.** Prior to 2020, we primarily procured laterite nickel ore from Indonesia for our nickel ore trading business. Due to the Indonesian government's ban on nickel ore export, since 2020, we have primarily been purchasing laterite nickel ore from the Philippines. As nickel ore from the Philippines is of relatively lower grade, the average grade of nickel ore procured for our nickel ore trading business decreased.

The Indonesian export ban has also affected our nickel production business. Prior to 2020, we primarily procured nickel ore from Indonesia for our Jiangsu Facilities' ferronickel production. Because of the export ban, we have been procuring nickel ore for our Jiangsu Facilities' ferronickel production from the Philippines, New Caledonia and other countries and regions since 2020. Nickel ore from the Philippines is of relatively lower grade. The decrease in production volume of our self-produced ferronickel in 2021 was partially attributable to us using a higher portion of nickel ore from the Philippines in our ferronickel production.

Both our trading and production businesses have recovered from the negative impact of the export ban since 2021. Revenue generated from our trading business increased by 75.2% from RMB5,005.5 million in 2020 to RMB8,771.1 million in 2021, primarily attributable to (i) increase in both the average selling price and sales volume of nickel ore for our trading business. We managed

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to procure a higher volume of nickel ore for our trading business from the Philippines in 2021 (in 2021, we purchased 11.5 million metric tons of nickel ore from the Philippines, compared to 10.2 million in 2020); (ii) increase in both the average selling price and sales volume of ferronickel for our trading business, the procurement of which was not affected by the export ban; and (iii) as phase I of the HPAL project commenced production in May 2021, we also generated revenue from the trading of nickel-cobalt compounds produced by the HPAL project between May and November 2021 (until HPL became one of our consolidated subsidiaries). Despite the fact that our ferronickel production business was adversely affected by the export ban in 2021 as discussed above, revenue generated from our overall nickel production business increased by 49.1% from RMB1,642.0 million in 2020 to RMB2,448.5 million in 2021. The increase was primarily because we began to generate revenue from the sales of self-produced nickel-cobalt compounds produced by our Obi projects (which directly source nickel ore in Indonesia from our Indonesian Partner and therefore are not affected by the export ban) since November 30, 2021. Once the Obi projects achieve full scale operation, it is estimated that more than 95% of our nickel product production revenue will be generated from the Obi projects, and as such the impact of the export ban on our production business is expected to be minimal.

See “Business — Indonesian Government’s Export Ban on Laterite Nickel Ore” for more details.

EFFECTS OF THE COVID-19 PANDEMIC ON OUR RESULTS OF OPERATIONS

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. Many countries and regions where we or our customers or suppliers operate, including China, the Philippines and Indonesia, have been affected by the COVID-19 outbreak and, in response, have imposed widespread lockdowns, closure of work places and restrictions on mobility and travel to contain the spread of the virus. More recently, there have been regional outbreaks of COVID-19 variants including Delta and Omicron. In particular, the Omicron variant is a recent emergence which is significantly more infectious than its predecessors. The resurgence in case number caused by the Omicron variant has led to a new round of restrictive measures in various degrees in countries and regions where we operate, and has created uncertainties for the outlook of relaxing the governments’ restrictive measures and our business operations in affected countries and regions.

Due to the COVID-19 outbreak, our business operations have been adversely affected:

- ***Nickel product trading business.*** Under the combined impact of Indonesia’s nickel ore export ban and the COVID-19 pandemic, the volume of global nickel ore trading underwent a temporary decline in 2020, decreasing 28.0% from 2019. Our nickel ore trading business was temporarily affected accordingly. For example, we procured over 330,000 metric tons of laterite nickel ore in February 2020, compared to over 800,000 metric tons in February 2019. As a result of the COVID-19 outbreak and a variety of other factors, including but not limited to the Indonesian government’s export ban on nickel ore starting January 1,

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2020, the sales volume of laterite nickel ore for our trading business decreased by 39.4% from 17,633,427 metric tons in 2019 to 10,677,613 metric tons in 2020. In addition, primarily as a result of the COVID-19 outbreak, there was a significant decrease in nickel price and customer demand in early 2020. As the market demand revived in the second quarter of 2020, we sold a higher volume of ferronickel for our trading business when the nickel price was relatively low, which led to a decrease in the average selling price of ferronickel for our trading business from RMB95.0 thousand per metal ton in 2019 to RMB90.8 thousand per metal ton in 2020.

- ***Nickel product production business.*** Due to the COVID-19 pandemic, China's ferronickel production volume in each of February and March 2020 fell by more than 12% compared to the respective previous month. As a result, our nickel product production business was temporarily affected and our Jiangsu Facilities' monthly ferronickel production volume decreased from over 1,700 metal tons in December 2019 to approximately 1,200 and 1,000 metal tons in March and April 2020, respectively. As a result of the COVID-19 outbreak and a variety of other factors, including but not limited to the closedown of a manufacturing facility operated by Xiangxiang Enterprise, the sales volume of our self-produced ferronickel decreased by 29.1% from 25,353 metal tons in 2019 to 17,969 metal tons in 2020. The average selling price of our self-produced ferronickel decreased from RMB93.0 thousand per metal ton in 2019 to RMB91.4 thousand per metal ton in 2020, primarily due to a significant decrease in nickel price in early 2020 as a result of the COVID-19 outbreak. In addition, as a result of the COVID-19 resurgence, the ferronickel production of our Jiangsu Facilities was temporarily suspended between March 25, 2022 and April 8, 2022, which, combined with other factors, led to a 7.9% decrease in the sales volume of our self-produced ferronickel from 8,259 metal tons in the six months ended June 30, 2021 to 7,603 metal tons in the same period of 2022.
- ***Prolonged shipping duration and increased shipping costs.*** Reduced transportation capacities and rising shipping cost prolonged the average shipping duration and increased our costs of operation, including those in connection with our transporting of laterite nickel ore and ferronickel from the Philippines and Indonesia, respectively. Shipping efficiency has also been adversely affected by various quarantine related rules and policies. For example, in 2020, relevant government authorities in the Philippines required arriving ships to spend at least 14 days at sea before the ships can enter the harbor to load and/or offload cargo in the port. Certain ports in China also imposed a 14-day quarantine on the crew of arriving ships from time to time. These policies further contributed to the decrease in the general availability of the ships used for the transportation of laterite nickel ore and ferronickel, thereby driving up shipping costs and other potential costs. Partially due to the foregoing reasons, our average shipping cost for laterite nickel ore increased from US\$9.9 per ton in 2019 to US\$17.2 in 2021, and our average shipping cost for ferronickel increased from US\$18.7 per ton in 2019 to US\$41.7 per ton in 2021. Our average shipping costs for laterite nickel ore and ferronickel were US\$19.8 per ton and US\$51.4 per ton, respectively, in the six months ended June 30, 2022. In addition, our average shipping costs for nickel-

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cobalt compounds increased from US\$50.4 per ton in 2021 to US\$54.7 per ton in the six months ended June 30, 2022. As a result of the increased shipping costs as well as other factors, our transportation costs increased significantly from RMB684.9 million in 2020 to RMB1,758.7 million in 2021, which in part led to a 60.7% increase in our cost of sales from RMB6,802.5 million in 2020 to RMB10,933.4 million in 2021. Also partly as a result of our increasing shipping costs, our transportation costs increased by 56.2% from RMB576.0 million in the six months ended June 30, 2021 to RMB899.8 million in the same period of 2022, which in part led to a 84.6% increase in our cost of sales from RMB3,735.4 million in the six months ended June 30, 2021 to RMB6,894.1 million in the same period of 2022.

Depending on how the COVID-19 outbreak evolves, the challenges presented to the shipping industry may persist or exacerbate. As of the Latest Practicable Date, most of the transportation and logistics network between China and Indonesia and the Philippines, respectively, had largely resumed normal operation.

- **Delay in project constructions.** The COVID-19 outbreak has also resulted in delays in construction schedule for our HPAL and RKEF projects on the Obi Island. Due to the lockdown and restrictive measures adopted by the Indonesian government, we experienced an eight-month delay for the construction of our HPAL project and a four-month delay in the construction of phase I of the RKEF project, as our engineers and workers were restricted from traveling in and out of the construction sites and the transportation of relevant devices, machinery and equipment were affected or delayed. While our construction on the Obi Island largely resumed in October 2020, the evolving COVID-19 outbreak, including the discovery and spread of more infectious variants, may cause further delays to our construction, thereby incurring additional costs and expenditures for us.

As a result of the COVID-19 outbreak and a combination of other factors as discussed in more details in “— Results of Operations — Year Ended December 31, 2020 Compared to Year Ended December 31, 2019”, including but not limited to the Indonesian government’s export ban on nickel ore starting January 1, 2020, our financial performance in 2020 was adversely affected:

- **Revenue.** Our revenue decreased by 17.0% from RMB9,347.4 million in 2019 to RMB7,755.2 million in 2020. In particular, revenue generated from our trading business decreased by 23.0% from RMB6,498.3 million in 2019 to RMB5,005.5 million in 2020, and revenue generated from our production business decreased by 30.3% from RMB2,357.4 million in 2019 to RMB1,642.0 million in 2020;
- **Gross profit.** Our gross profit decreased by 6.4% from RMB1,018.1 million in 2019 to RMB952.7 million in 2020. In particular, gross profit for our trading business decreased by 16.5% from RMB575.0 million in 2019 to RMB480.1 million in 2020, and gross profit for our production business decreased by 4.5% from RMB395.7 million in 2019 to RMB378.1 million in 2020; and

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- ***Profit for the year.*** Our profit for the year decreased by 8.5% from RMB566.7 million in 2019 to RMB518.3 million in 2020.

Due to the recent resurgences of cases caused by the COVID-19 variants, including Omicron and its subvariants, certain cities in China again imposed various restrictive measures, including city-wide lockdowns, and these measures adversely affected various industries. However, the impact of such resurgences on our industry and our business operations and financial performance has been limited as of the Latest Practicable Date. For example, China's nickel ore import volume, ferronickel import volume and ferronickel production volume generally increased during the period between January and April 2022. In April 2022, the month when the COVID-19 situation was the most serious in China, China's ferronickel import volume decreased by only 2.6% from that in March 2022, while its nickel ore import volume and ferronickel production volume increased by 46.1% and 1.8%, respectively, from that in March 2022. Different from the nationwide adverse impact in 2020 and 2021, in 2022, the resurgences of cases and the corresponding restrictive measures imposed by governments have generally been confined to selected cities, such as Shanghai and Beijing, not in areas where our business operations are primarily based. As such, we have not experienced any material operating difficulties, labor shortages, supply chain disruptions or order cancellations due to the recent recurrence of COVID-19. In line with the continuous recovery in the industry and the global economy from the COVID-19 outbreak, our revenue generated from the Greater China Area increased by 115.6% to RMB7,808.9 million in the six months ended June 30, 2022 from RMB3,621.1 million in the same period of 2021, and our total revenue increased significantly from RMB4,088.3 million in the six months ended June 30, 2021 to RMB9,978.3 million in the same period of 2022. Accordingly, as of the Latest Practicable Date, our trading and production businesses in China have continued to recover despite the recent resurgences caused by COVID-19 variants such as Omicron.

To the best knowledge of our Directors, as of the Latest Practicable Date, there had not been any COVID-19-related breach or cancelation of our material contracts, material issues with collection of customer receivables, or disputes with major customers.

After considering (i) our robust financial performance and key operational indicators (such as trading volume and production output) during the Track Record Period, (ii) that the construction schedule of our Obi projects has not experienced significant delays as of the Latest Practicable Date, (iii) our long-term and stable relationships with both our major suppliers and customers, and (iv) the nature, scale and the increasingly diversified coverage of our business operations, both in terms of business segment and geographic reach, our Directors are of the view that the COVID-19 pandemic has not, and is not expected to have, any material adverse impact on our operations or financial performance.

Continuance or recurrence of the COVID-19 outbreak in China, the Philippines, Indonesia or other parts of the world may materially and adversely affect our business operations. For more details, please see "Risk Factors — Risks relating to Our Business and Industry — Our business operations and financial performance have been and may continue to be affected by the COVID-19 pandemic."

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BASIS OF PRESENTATION

The historical financial information has been prepared in accordance with IFRS issued by IASB, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRS effective for the accounting period commencing from January 1, 2021, together with the relevant transitional provisions, have been consistently applied by us in the preparation of the historical financial information throughout the Track Record Period and in the period covered by the interim comparative financial information. The historical financial information has been prepared under the historical cost convention, except for financial assets measured at fair value through profit or loss which have been measured at fair value. Profit or loss and each component of other comprehensive income are attributed to the owners of our parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A summary of our significant accounting policies is set forth in Note 2 to the Accountants' Report in Appendix IA to this prospectus. Critical accounting policies are those that require our management to exercise judgment in applying assumptions and making estimates that would yield materially different results if our management applied different assumptions or made different estimates. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future. We believe the following critical accounting policies involve the most significant judgments in the preparation of our consolidated financial statements.

Revenue Recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between us and the customer at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of nickel products

Revenue from the sale of nickel products is recognized at the point in time when control of the asset is transferred to the customer, generally on shipment on board incoterms or delivery of goods to the destination specified by the customer.

When we are responsible for providing these services (shipping and insurance) to the customer, sometimes after the date at which we have lost control of the goods. Revenue related to the provision of shipping-and-insurance activities is recognized overtime as the service is rendered.

(i) Variable consideration

We have certain provisionally priced sales where the contract terms for our nickel products sales allow for a price adjustment based on a final assay of the goods determined after discharge. We assess such provisional pricing to be a variable consideration and recognize revenue at a mostly likely amount. We determined that the most likely amount method is the appropriate method to use in estimating the variable consideration for the sale of products with price adjustment, given that supplier is capable to provide the weight and inspection results at the port of loading. This amount is based on the most recently determined estimate of product assays. We apply judgement regarding the likelihood of significant reversals to ensure that revenue is only recognized to the extent that it is highly probable that significant reversal will not occur. Any adjustments to the final price are recognized as revenue.

Sale of equipment

Revenue from the sale of equipment without installation services is recognized at the point in time when control of the asset is transferred to the customer, generally on shipment on board.

In some instances, the sale of equipment includes installation services. The sale of equipment and installation services are considered as one performance obligation since the promises to transfer the equipment and provision of installation services are not capable of being distinct and separately

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identifiable. Revenue from sale of equipment with installation services is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because the assets generated during our performance have irreplaceable utilization, and we are entitled to collect amounts of cumulative performance part which have been done up to now. The input method recognizes revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the performance obligation. In addition to the terms of the contract, the promised consideration is variable and has been partially constrained when we intend to offer a price concession to the customer. Such promised consideration is accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. We use the expected value method to estimate the amounts of variable consideration because this method best predicts the amount of variable consideration to which we will be entitled.

Sale of others

Others include the sale of wastes and shipping services to customers. Revenue from the sale of wastes is recognized at the point in time when control of the asset is transferred to the customer. Revenue related to the provision of shipping services is recognized overtime as the service is rendered.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is based on the individual or weighted average basis, in the case of work in progress and finished goods, costs comprise direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75% to 12.5%
Plant and machinery	6.3% to 33.3%
Electronic and office equipment	9.5% to 32%
Motor vehicles	9.5% to 19%
Leasehold improvements	Over the shorter of the lease terms and 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant under construction and machinery under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Impairment of Financial Assets

We recognize an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that we expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, we assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, we compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

We consider a financial asset in default when contractual payments are 90 days past due. However, in certain cases, we may also consider a financial asset to be in default when internal or external information indicates that we are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by us. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the end of each of the Track Record Periods (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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Simplified approach

For trade receivables that do not contain a significant financing component or when we apply the practical expedient of not adjusting the effect of a significant financing component, we apply the simplified approach in calculating ECLs. Under the simplified approach, we do not track changes in credit risk, but instead recognize a loss allowance based on lifetime ECLs at each reporting date. We have established a provision matrix that is based on our historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of Non-financial Assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or our assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

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PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth a summary, as extracted from Appendix IA to this prospectus, of our consolidated results of operations in absolute amounts. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Revenue	9,347,434	7,755,174	12,449,318	4,088,286	9,978,283
Cost of sales	(8,329,333)	(6,802,515)	(10,933,390)	(3,735,398)	(6,894,081)
Gross profit	1,018,101	952,659	1,515,928	352,888	3,084,202
Other income and gains	70,946	122,406	424,900	56,108	108,924
Selling and distribution expenses	(55,869)	(50,128)	(124,124)	(23,346)	(43,170)
Administrative expenses	(132,547)	(174,178)	(301,134)	(110,342)	(480,192)
Impairment losses on financial assets, net	(812)	115	(4,172)	(1,581)	(2,685)
Other operating expenses	(13,812)	(40,232)	(91,944)	(57,639)	(111,330)
Finance costs	(66,559)	(42,176)	(79,325)	(25,466)	(108,517)
Share of profits and losses of associates	(34,352)	(68,063)	99,008	(52,975)	(54,713)
Profit before tax	785,096	700,403	1,439,137	137,647	2,392,519
Income tax expense	(218,370)	(182,065)	(179,174)	(48,691)	(102,896)
Profit for the year/period	566,726	518,338	1,259,963	88,956	2,289,623
Profit attributable to:					
Owners of the parent	565,584	520,156	1,099,508	86,053	1,350,119
Non-controlling interest	1,142	(1,818)	160,455	2,903	939,504
	566,726	518,338	1,259,963	88,956	2,289,623

Revenue

In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our revenue was RMB9,347.4 million, RMB7,755.2 million, RMB12,449.3 million, RMB4,088.3 million and RMB9,978.3 million, respectively.

During the first three years of Track Record Period, we generated a majority of our revenue from the trading of nickel products, including laterite nickel ore, ferronickel and nickel-cobalt compounds. In 2021, our nickel product trading revenue also included revenue generated from the sale of MHP we purchased from HPL (the project company of phases I and II of the HPAL project). We initially held an 36.9% equity interest in HPL and acquired an additional 18.0% equity interest in this company on November 29, 2021, and have since November 30, 2021 consolidated its financial results into our consolidated financial statements. See “— Financial Information of HPL” for more details.

We also generated revenue from (i) production of nickel products, including ferronickel and nickel-cobalt compounds, (ii) manufacturing and sales of machinery and equipment used in the

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production of nickel products, and (iii) others, which includes sales of wastes generated during the production of our nickel products and leasing revenue generated from the subletting of vessel used for the shipment of our nickel products and sale of auxiliary materials to HJF, primarily including semi-coke and coke. In the six months ended June 30, 2022, revenue generated from our nickel product production business exceeded that from our nickel product trading business, as we began to generate revenue from the sales of our self-produced nickel-cobalt compounds since November 30, 2021, as a result of our consolidation of HPL.

During the Track Record Period, a substantial majority of our equipment manufacturing and sale revenue was generated from sale of nickel product production machinery and equipment to HPL and HJF. In 2019, 2020 and 2021, revenue generated from our sale of machinery and equipment to HPL accounted for 4.1%, 11.7% and 2.5% of our total revenue, respectively. Following the consolidation of HPL's financial results into our consolidated financial statement after November 30, 2021, revenue from sales to HPL has been eliminated as intra-group transactions. Since most of our equipment manufacturing and sale revenue is generated from HPL and HJF, we expect our equipment manufacturing and sale revenue to decrease as a result of the consolidation of HPL.

However, given that the procurement of major machinery and equipment in relation to phases I and II of the HPAL project has been substantially completed as of the Latest Practicable Date, sales of machinery and equipment to HPL is expected to further decrease. In addition, as the procurement of major machinery and equipment in relation to phase I of the RKEF project has also been substantially completed as of the Latest Practicable Date, sales of machinery and equipment to HJF is similarly expected to decrease going forward. As such, we do not expect the sales of machinery and equipment to HPL and HJF to account for a substantial part of our revenue going forward, regardless of the consolidation of HPL as described above. In addition, unlike the nickel product trading and production segments, the equipment manufacturing and sale segment is not our strategic focus, and we plan to enlarge our customer basis for this business segment when suitable opportunities arise.

Therefore, although we expect the revenue generated from this segment to decrease as a result of the consolidation of HPL as described above, given that (1) this segment is not our strategic focus, and (2) revenue generated from this segment accounted for a small percentage of our total revenue during the Track Record Period, and is expected to further decrease going forward, the consolidation of HPL is not expected to have any material adverse effect on our operations.

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Revenue by Business Segment

The following table sets forth a breakdown of our revenue by business segment, in absolute amount and as a percentage of our total revenue, for the periods indicated.

	Year ended December 31,						Six months ended June 30,					
	2019		2020		2021		2021		2022			
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)		
Nickel Product												
Trading												
Laterite nickel ore	5,121,164	54.8	3,126,720	40.3	4,780,838	38.4	1,683,474	41.2	2,311,259	23.1		
Ferronickel	1,377,120	14.7	1,878,785	24.2	2,739,369	22.0	1,047,751	25.6	1,898,965	19.0		
Nickel-cobalt compounds ⁽¹⁾	—	—	—	—	1,250,856	10.0	136,551	3.3	—	—		
Subtotal	6,498,284	69.5	5,005,505	64.5	8,771,063	70.4	2,867,776	70.1	4,210,224	42.1		
Nickel Product												
Production												
Ferronickel	2,357,449	25.2	1,642,049	21.2	1,538,886	12.4	793,323	19.4	983,785	9.9		
Nickel-cobalt compounds ⁽¹⁾	—	—	—	—	909,611	7.3	—	—	3,966,929	39.7		
Subtotal	2,357,449	25.2	1,602,049	21.2	2,448,497	19.7	793,323	19.4	4,950,714	49.6		
Equipment												
Manufacturing and Sale												
Revenue from HPL and HJF	383,553	4.1	912,436	11.8	885,760	7.1	301,552	7.3	621,509	6.2		
Revenue from independent third parties	33,302	0.4	107,796	1.4	117,632	1.0	51,996	1.3	49,866	0.5		
Subtotal	416,855	4.5	1,020,232	13.2	1,003,392	8.1	353,548	8.6	671,375	6.7		
Others	74,846	0.8	87,388	1.1	226,366	1.8	73,639	1.9	145,970	1.6		
Total	9,347,434	100.0	7,755,174	100.0	12,449,318	100.0	4,088,286	100.0	9,978,283	100.0		

Note:

(1) Prior to November 29, 2021, we held 36.9% equity interest in HPL, the project company of phases I and II of the HPAL project, and purchased nickel-cobalt compound products from HPL. We acquired an additional 18.0% equity interest in HPL on November 29, 2021 and has since November 30, 2021 treated HPL as one of our subsidiaries, consolidating its financial results into our consolidated financial statements. As such, our nickel product production business has started to generate revenue from the sale of nickel-cobalt compound products produced by the HPAL project since November 30, 2021.

Revenue by Geographic Region

We primarily generate revenue for our nickel product trading and production businesses from customers in mainland China, and to a lesser extent, from customers in Taiwan, Malaysia and South Korea. We primarily generate revenue for our equipment manufacturing and sale business from customers in Indonesia (including HPL and HJF, to which we sold machinery and equipment used in the production of nickel products).

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The following table sets out a breakdown of our revenue by geographic region (primarily based on shipping destination), each expressed as an absolute amount and as a percentage of our total revenue, for the periods indicated.

	Years ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
							<i>(unaudited)</i>			
Greater China Area										
Mainland										
China	7,611,512	81.4	6,648,087	85.7	10,379,462	83.4	3,606,910	88.3	7,788,705	78.1
Hong Kong	—	—	—	—	58,853	0.5	14,188	0.3	20,174	0.2
Taiwan	601,767	6.4	—	—	402,333	3.2	—	—	—	—
	<u>8,213,279</u>	<u>87.9</u>	<u>6,648,087</u>	<u>85.7</u>	<u>10,840,648</u>	<u>87.1</u>	<u>3,621,098</u>	<u>88.6</u>	<u>7,808,879</u>	<u>78.3</u>
South Korea	746,971	8.0	188,030	2.4	633,096	5.1	145,245	3.6	1,010,280	10.1
Indonesia	387,184	4.1	919,057	11.9	887,027	7.1	301,552	7.4	664,138	6.7
Malaysia	—	—	—	—	—	—	—	—	460,284	4.6
Others ⁽¹⁾	—	—	—	—	88,547	0.7	20,391	0.4	34,702	0.3
Total	<u>9,347,434</u>	<u>100.0</u>	<u>7,755,174</u>	<u>100.0</u>	<u>12,449,318</u>	<u>100.0</u>	<u>4,088,286</u>	<u>100.0</u>	<u>9,978,283</u>	<u>100.0</u>

Note:

(1) Including United Arab Emirates, Singapore and British Virgin Islands.

During the Track Record Period, the Greater China area (including mainland China, Hong Kong and Taiwan) was our most important region in terms of revenue generation, contributing 87.9%, 85.7% and 87.1% of our total revenue in 2019, 2020 and 2021, respectively, without any significant fluctuation. In the six months ended June 30, 2022, 78.3% of our revenue was generated from the Greater China Area, compared to 88.6% in the same period of 2021. This is primarily because the growth of our revenue generated from Malaysia and South Korea outpaced that of the Greater China Area in the six months ended June 30, 2022.

During the Track Record Period, the amount of revenue we derived from South Korea decreased from 2019 to 2020 and increased in 2021, primarily due to the fluctuation in the amount of ferronickel purchased by POSCO Group, which was in line with fluctuations in its production needs. Revenue from POSCO Group accounted for a vast majority of our revenue from South Korea during the Track Record Period. The amount of revenue we derived from South Korea increased significantly from the six months ended June 30, 2021 to the same period of 2022, primarily due to the commencement of sale of our self-produced nickel-cobalt compound products.

The amount of revenue we derived from Indonesia increased from 2019 to 2020 and remained relatively stable from 2020 to 2021, mainly due to the increase in our equipment sales to HPL and HJF in 2020 and 2021, as the construction of the HPAL and RKEF projects continued. The amount of revenue we derived from Indonesia increased from the six months ended June 30, 2021 to the same period in 2022, mainly due to the increase in our equipment sales to HJF, as the construction of the RKEF project continued.

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We started to generate revenue from Malaysia for the sale of nickel-cobalt compounds in the six months ended June 30, 2022.

We generated a small portion of revenue from other countries and regions, including United Arab Emirates, Singapore and British Virgin Islands, as we began to offer vessel subleasing in 2021.

Revenue by Downstream Application

The following table sets forth a breakdown of our revenue generated from nickel product trading and nickel product production businesses, which are our core businesses, by downstream application, in absolute amount and as a percentage of the total revenue generated from these two business segments, for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	% of trading and production revenue	RMB'000	% of trading and production revenue	RMB'000	% of trading and production revenue	RMB'000	% of trading and production revenue	RMB'000	% of trading and production revenue
Stainless steel industry ⁽¹⁾	8,855,733	100.0	6,647,554	100.0	9,059,093	80.7	3,524,548	96.3	5,194,009	56.7
NEV industry ⁽²⁾	—	—	—	—	2,160,467	19.3	136,551	3.7	3,966,929	43.3
Total	8,855,733	100.0	6,647,554	100.0	11,219,560	100.0	3,661,099	100.0	9,160,938	100.0

Notes:

- (1) Representing revenues from sales of laterite nickel ore and ferronickel in our trading business and sales of ferronickel in our production business.
- (2) Representing revenues from sales of nickel-cobalt compounds in our trading and production business.

In 2019 and 2020, we primarily generated revenue from selling nickel products in our trading business and ferronickel in our production business to downstream customers in the stainless steel industry. We started to generate revenue from the sale of nickel-cobalt compounds to downstream customers in the NEV industry since the two production lines of phase I of the HPAL project commenced production in May 2021. Our revenue generated from the sale of nickel-cobalt compounds to downstream customers in the NEV industry has increased rapidly since our consolidation of HPL (the project company of phases I and II of the HPAL project) in November 2021.

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Sales Volume and Average Selling Price of Our Products

The table below sets forth a breakdown of our sales volume and average selling price for our nickel product trading and nickel product production businesses, which are our core businesses, for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	<i>Volume</i> <i>(tons⁽¹⁾)</i>	<i>RMB'000/</i> <i>ton</i>	<i>Volume</i> <i>(tons)</i>	<i>RMB'000/</i> <i>ton</i>	<i>Volume</i> <i>(tons)</i>	<i>RMB'000/</i> <i>ton</i>	<i>Volume</i> <i>(tons)</i>	<i>RMB'000/</i> <i>ton</i>	<i>Volume</i> <i>(tons)</i>	<i>RMB'000/</i> <i>ton</i>
Nickel Product										
Trading										
Laterite nickel ore	17,633,427	0.3	10,677,613	0.3	11,655,645	0.4	4,619,619	0.4	4,803,604	0.5
Ferronickel	14,500	95.0	20,694	90.8	24,975	109.7	10,621	98.6	13,059	145.4
Nickel-Cobalt Compounds	—	—	—	—	7,721 ⁽³⁾	116.3	956	111.4	—	—
Nickel Product										
Production										
Ferronickel	25,353 ⁽²⁾	93.0	17,969 ⁽²⁾	91.4	14,606	105.4	8,259	96.1	7,603	129.4
Nickel-Cobalt Compounds	—	—	—	—	5,185 ⁽³⁾	119.2	—	—	19,779	148.0

Notes:

- (1) consistent with industry practice, “tons” refers to metric tons for laterite nickel ore, and metal tons for ferronickel and nickel-cobalt compounds.
- (2) Also includes ferronickel produced by Xiangxiang Enterprise. The sales volume of Xiangxiang Enterprise in 2019 and 2020 was 9,985 metal tons and 208 metal tons, respectively. See “History, Development and Corporate Structure — Disposal of Xiangxiang Enterprise” for more details.
- (3) Nickel-cobalt compounds produced by the HPAL project prior to November 29, 2021 was categorized under “Nickel Product Trading”, because HPL was then not our consolidated subsidiary, and we purchased nickel-cobalt compound from HPL as part of our trading business. After we acquired an additional 18.0% equity interest in HPL on November 29, 2021 and treated it as one of our subsidiaries since November 30, 2021, nickel-cobalt compound produced by the HPAL projects is categorized under “Nickel Product Production”, given that HPL’s production activities have become part of our production business.

The sales volume of laterite nickel ore for our nickel product trading business decreased by 39.4% from 17,633,427 metric tons in 2019 to 10,677,613 metric tons in 2020, primarily due to Indonesian government’s export ban on nickel ore starting January 1, 2020, as a result of which we could no longer procure nickel ore from Indonesia, and it took some time for us to secure a significantly higher volume of nickel ore from other countries and regions including the Philippines. In 2019, 34.8% of the volume of nickel ore for our trading business was from Indonesia. In 2020, in terms of volume, 95.3% of nickel ore for our trading business was from the Philippines, compared to 65.0% in 2019. In addition, as some of our customers stocked up on nickel ore inventory from Indonesia in late 2019 in anticipation of the export ban, customer demand for our nickel ore products decreased in 2020. The COVID-19 situation also had a negative impact on global nickel ore trading in early 2020. Due to the combined impact of the export ban and the COVID-19 pandemic, the

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volume of global nickel ore trading decreased by 28.0% from 2019 to 2020. The sales volume of laterite nickel ore for our nickel product trading business increased by 9.2% from 10,677,613 metric tons in 2020 to 11,655,645 metric tons in 2021, primarily because (i) we managed to procure a higher volume of nickel ore from the Philippines in 2021 at a generally lower price than that from Indonesia prior to the export ban. In 2021, we purchased 11.5 million metric tons of laterite nickel ore from the Philippines, compared to 10.2 million in 2020; and (ii) there was increased customer demand, due to the steady growth of the stainless steel industry. See “Industry Overview — Overview of Major Downstream Industries of Global and China Nickel Consumption — Stainless Steel Industry” for more details. The average selling price of laterite nickel ore for our nickel product trading business remained relatively stable at RMB0.3 thousand per metric ton in 2019 and 2020. The average selling price of laterite nickel ore for our nickel product trading business increased from RMB0.3 thousand per metric ton in 2020 to RMB0.4 thousand per metric ton in 2021, primarily due to an increase in the price of nickel ore. The annual average nominal price of nickel ore with nickel content between 1.5% to 1.6% increased from RMB550 per metric ton in 2020 to RMB629 per metric ton in 2021, as a result of global loose monetary policy environment and strong demand from the stainless steel industry. The sales volume of laterite nickel ore for our nickel product trading business remained relatively stable at 4,619,619 metric tons and 4,803,604 metric tons in the six months ended June 30, 2021 and 2022, respectively. The average selling price of laterite nickel ore for our nickel product trading business increased from RMB0.4 thousand per metric ton in the six months ended June 30, 2021 to RMB0.5 thousand per metric ton in the same period in 2022, primarily due to an increase in the price of nickel ore. The annual average nominal price of nickel ore with nickel content between 1.5% to 1.6% increased from RMB558 per metric ton in the six months ended June 30, 2021 to RMB688 per metric ton in the same period of 2022.

The sales volume of ferronickel for our nickel product trading business increased by 42.7% from 14,500 metal tons in 2019 to 20,694 metal tons in 2020, and increased by 20.7% to 24,975 metal tons in 2021, as our ferronickel trading business continued to grow as a result of increasing demand from our ferronickel customers. Because of the Indonesian government’s export ban, certain smelting and refining companies and stainless steel manufacturers, which used to purchase nickel ore to produce ferronickel on their own, were no longer able to do so and instead increased their purchase of ferronickel. The average selling price of ferronickel for our nickel product trading business decreased from RMB95.0 thousand per metal ton in 2019 to RMB90.8 thousand per metal ton in 2020, primarily because there was a significant decrease in nickel price and customer demand in early 2020 as a result of the COVID-19 outbreak, and as the market demand revived in the second quarter of 2020, we sold a higher volume of ferronickel when the nickel price was relatively low. The average selling price of ferronickel for our nickel product trading business increased from RMB90.8 thousand per metal ton in 2020 to RMB109.7 thousand per metal ton in 2021, primarily due to an increase in nickel price. The annual average nominal price of ferronickel with nickel content between 7% to 10% increased from RMB1,019 per nickel point in 2020 to RMB1,269 per nickel point in 2021, as a result of decreasing ferronickel production volume in China (given that certain smelting and refining companies and stainless steel manufacturers which used to produce ferronickel on their own using nickel ore from Indonesia could no longer do so since 2020) and

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strong downstream demand from the stainless steel industry. The sales volume of ferronickel for our nickel product trading business increased by 23.0% from 10,621 metal tons in the six months ended June 30, 2021 to 13,059 metal tons in the same period in 2022, primarily due to increased customer demand. The average selling price of ferronickel for our nickel product trading business increased from RMB98.6 thousand per metal ton in the six months ended June 30, 2021 to RMB145.4 thousand per metal ton in the same period in 2022, primarily due to the unprecedented price spike in the LME nickel price since early March 2022. The annual average nominal price of ferronickel with nickel content between 7% to 10% increased from RMB1,124 per nickel point in the six months ended June 30, 2021 to RMB1,527 per nickel point in the same period of 2022.

The sales volume of our self-produced ferronickel decreased by 29.1% from 25,353 metal tons in 2019 to 17,969 metal tons in 2020, primarily due to the closedown of a manufacturing facility with two ferronickel production lines in December 2019. The manufacturing facility was operated by Xiangxiang Enterprise, which was disposed of by us in 2020. The sales volume of our self-produced ferronickel decreased by 18.7% from 17,969 metal tons in 2020 to 14,606 metal tons in 2021, primarily due to decreased production volume of self-produced ferronickel, because (i) our Jiangsu Facilities had to temporarily shut down in September 2021 due to power shortages. This power shortage, which was a result of the local government's electricity rationing efforts targeting energy intensive enterprises in Jiangsu province, lasted 17 days, during which our Jiangsu Facilities had to temporarily suspend its production activities. As a result of the power shortage, our Jiangsu Facilities' monthly production volume in September 2021 decreased to 419 metal tons of ferronickel, reflecting an over 70% decrease from that of the same periods in 2019 and 2020, respectively. In addition, although our Jiangsu Facilities resumed operation in October 2021, it continued to be subject to electricity rationing measures from time to time in October 2021, which also adversely affected its ferronickel production; and (ii) we proactively reduced the production of self-produced ferronickel due to reasons including (a) a higher percentage of nickel ore (which is used as raw material for our ferronickel production) we purchased for our ferronickel production in 2021 was from the Philippines, which generally had lower nickel content. In 2021, 61.5% of the volume of nickel ore procured for our ferronickel production was from the Philippines, compared to 34.5% in 2020; and (b) the costs of ancillary materials primarily including coal and reducing agent, increased by 44.6% from RMB164.8 million in 2020 to RMB238.3 million in 2021. The average selling price of our self-produced ferronickel decreased from RMB93.0 thousand per metal ton in 2019 to RMB91.4 thousand per metal ton in 2020, primarily due to a significant decrease in nickel price in early 2020 as a result of the COVID-19 outbreak. The average selling price of our self-produced ferronickel increased from RMB91.4 thousand per metal ton in 2020 to RMB105.4 thousand per metal ton in 2021, primarily due to an increase in nickel prices. The annual average nominal price of ferronickel with nickel content between 7% to 10% increased from RMB1,019 per nickel point in 2020 to RMB1,269 per nickel point in 2021, as a result of decreasing ferronickel production volume in China and strong downstream demand from the stainless steel industry. The sales volume of our self-produced ferronickel decreased by 7.9% from 8,259 metal tons in the six months ended June 30, 2021 to 7,603 metal tons in the same period in 2022, primarily due to decreased production volume of self-produced ferronickel, as a result of (i) the periodic maintenance of our Jiangsu Facilities' ferronickel

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production lines and (ii) the temporary suspension of production of our Jiangsu Facilities between March 25, 2022 and April 8, 2022 as a result of COVID-19 resurgence. Our Jiangsu Facilities resumed production on April 9, 2022. The average selling price of our self-produced ferronickel increased from RMB96.1 thousand per metal ton in the six months ended June 30, 2021 to RMB129.4 thousand per metal ton in the same period in 2022, primarily due to an increase in nickel prices. The annual average nominal price of ferronickel with nickel content between 7% to 10% increased from RMB1,124 per nickel point in the six months ended June 30, 2021 to RMB1,527 per nickel point in the same period of 2022.

During the Track Record Period, the average selling prices of our nickel products were in line with prevailing market prices. See “Industry Overview — Price Analysis of Nickel and Cobalt” for more details.

Cost of Sales

In 2019, 2020 and 2021, and the six months ended June 30, 2021 and 2022, our cost of sales was RMB8,329.3 million, RMB6,802.5 million, RMB10,933.4 million, RMB3,735.4 million and RMB6,894.1 million, respectively.

Cost of sales consists of (1) value of goods, which primarily represents the costs of nickel ore, ferronickel and nickel-cobalt compounds for our nickel product trading business and cost of equipment for our equipment manufacturing and sales business; (2) raw materials costs, which primarily represent costs of nickel ore (used as raw material in our nickel product production business), (3) ancillary materials costs, which primarily represent costs of ancillary materials for our nickel product production business, such as coal and reducing agent, (4) transportation costs, which primarily represent other shipping costs incurred in our operations, and (5) others, including utilities costs, staff costs and depreciation and amortization.

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The following table sets forth a breakdown of our cost of sales by nature, in absolute amount and as a percentage of our total cost of sales, for the periods indicated.

	Years ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000	(%)
							<i>(Unaudited)</i>			
Value of goods										
Laterite nickel ore . . .	3,422,478	41.1	2,035,131	29.9	2,536,955	23.2	985,071	26.3	1,270,506	18.4
Ferronickel	1,366,951	16.4	1,824,381	26.8	2,657,593	24.3	1,025,310	27.5	1,770,695	25.6
Nickel-cobalt compounds	—	—	—	—	1,217,138	11.1	134,112	3.6	—	—
Equipment	355,201	4.3	902,066	13.3	820,332	7.5	285,218	7.6	486,574	7.1
Subtotal	5,144,630	61.8	4,761,578	70.0	7,232,018	66.1	2,429,711	65.0	3,527,775	51.1
Raw materials	1,031,391	12.4	773,353	11.4	1,191,016	10.9	403,358	10.8	1,640,211	23.8
Ancillary materials	298,191	3.6	164,802	2.4	238,261	2.2	107,278	2.9	219,253	3.2
Transportation costs	1,108,640	13.3	684,878	10.1	1,758,743	16.1	575,984	15.4	899,782	13.1
Others	746,481	8.9	417,904	6.1	513,352	4.7	219,067	5.9	607,060	8.8
Total cost of sales	8,329,333	100.0	6,802,515	100.0	10,933,390	100.0	3,735,398	100.0	6,894,081	100.0

Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit and gross profit margin by product type for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin
							<i>(Unaudited)</i>			
Nickel Product Trading										
Laterite nickel ore	528,430	10.3	448,244	14.3	660,472	13.8	203,690	12.1	334,515	14.5
Ferronickel	46,527	3.4	31,897	1.7	76,123	2.8	9,031	0.9	101,154	5.3
Nickel-Cobalt compounds	—	—	—	—	3,145	0.3	352	0.3	—	—
Subtotal	574,957	8.8	480,141	9.6	739,740	8.4	213,073	7.4	435,669	10.3
Nickel Product Production										
Ferronickel	395,718	16.8	378,078	23.0	249,885	16.2	95,358	12.0	121,876	12.4
Nickel-Cobalt compounds	—	—	—	—	376,758	41.4	—	—	2,402,188	60.6
Subtotal	395,718	16.8	378,078	23.0	626,643	25.6	95,358	12.0	2,524,064	51.0
Equipment Manufacturing and Sale	44,260	10.6	89,168	8.7	111,608	11.1	29,970	8.5	114,631	17.1
Others	3,166	4.2	5,272	6.0	37,937	16.8	14,487	19.7	9,838	6.7
Total gross profit	1,018,101	10.9	952,659	12.3	1,515,928	12.2	352,888	8.6	3,084,202	30.9

Our gross profit decreased by 6.4% from RMB1,018.1 million in 2019 to RMB952.7 million in 2020, primarily due to a 17.0% decrease in our revenue from RMB9,347.4 million in 2019 to RMB7,755.2 million in 2020. Our gross profit margin increased from 10.9% in 2019 to 12.3% in

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2020, primarily due to higher profit margin for our trading and production businesses in 2020. Our gross profit increased by 59.1% from RMB952.7 million in 2020 to RMB1,515.9 million in 2021, primarily attributable to a 60.5% increase in our revenue from RMB7,755.2 million in 2020 to RMB12,449.3 million in 2021. Our gross profit margin remained relatively stable at 12.3% and 12.2% in 2020 and 2021, respectively. Our gross profit increased significantly from RMB352.9 million in the six months ended June 30, 2021 to RMB3,084.2 million in the same period of 2022, primarily as a result of a significant increase in our revenue from RMB4,088.3 million in the six months ended June 30, 2021 to RMB9,978.3 million in the same period of 2022, which was in turn primarily attributable to an increase in revenue generated from our nickel product production business. Our gross profit margin increased from 8.6% in the six months ended June 30, 2021 to 30.9% in the same period of 2022, which was primarily due to (i) we began to generate revenue from the sale of self-produced nickel-cobalt compounds, which had higher profit margins compared to self-produced ferronickel, since November 30, 2021 as a result of our consolidation of HPL, and (ii) we recorded higher gross profit and gross profit margins for our trading and production businesses during the six months ended June 30, 2022, primarily due to higher average selling price of our nickel products, which was as a result of an increase in nickel price due to market growth and an unprecedented price spike in the LME nickel price attributable to the geo-political conflict in early 2022.

Other Income and Gains

In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, other income and gains were RMB70.9 million, RMB122.4 million, RMB424.9 million, RMB56.1 million and RMB108.9 million, respectively.

Other income and gains primarily consists of (1) government grants, primarily including (a) government grants received in connection with our payment of taxes, and (b) utility subsidies, (2) bank interest income, (3) investment income from financial assets at fair value through profit or loss, primarily related to wealth management products and futures products purchased by us, (4) gain on disposal of Xiangxiang Enterprise, a subsidiary of ours, (5) gain on step acquisition of subsidiaries, (6) net foreign exchange gains, and (7) changes in fair value of financial assets at fair value through profit or loss.

We purchase futures products from time to time to hedge our exposure against price fluctuations of nickel products. In 2019, we recorded RMB26.0 million net income from settled futures products as investment income, primarily as a result of decreases in the LME nickel prices. In the six months ended June 30, 2022, we recorded RMB0.06 million book profits of changes in fair value of financial assets at fair value through profit or loss for unsettled futures products under other income and gains. In 2020 and 2021, we recorded net loss from futures products, see “— Other Operating Expenses” for more details.

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We recorded RMB44.3 million changes in fair value of financial assets at fair value through profit or loss related to exchange interest rate swap to hedge interest risks for the six months ended June 30, 2022.

The currency used in our business operations primarily include U.S. dollars and Renminbi. For our operations in Indonesia, we primarily use U.S. dollar as the transaction currency, except that we use Indonesian rupiah for the purchase of nickel ore and certain other raw materials and ancillary materials. While we strive to match the currency used in our transactions, to the extent our procurement and the subsequent sales involve different currencies, we are subject to risks arising from the use of different currencies, especially for the export of products and sales outside the country of procuring and manufacturing. Exchange rates between the Renminbi and the U.S. dollar, as well as between Indonesian rupiah and the U.S. dollar, may fluctuate and our financial performance can be affected. During the Track Record Period, while exchange rate between U.S. dollars and Renminbi fluctuated in 2019 and the first half of 2020, Renminbi has started to generally appreciate against U.S. dollars from June 2020 to May 2021, and the exchange rates between the U.S. dollar and the Renminbi slightly fluctuated between June 2021 and March 2022. Renminbi further started to generally depreciate against the U.S. dollar between April 2022 and June 2022. Accordingly, (i) we recorded net exchange losses of RMB12.6 million and RMB15.8 million in 2019 and the six months ended June 30, 2022, respectively, which were recognized as other operating expenses in our consolidated statements of profit or loss, and (ii) we generated net foreign exchange gains of RMB33.1 million and RMB40.6 million in 2020 and 2021, respectively, which were recognized as other income and gains in our consolidated statements of profit or loss.

In addition, we recorded RMB282.6 million gain on step acquisition of HPL on November 30, 2021, which was derived from the remeasurement gains of RMB333.4 million (representing the difference of the fair value and book value of the 36.9% equity interest we previously held in HPL immediately before obtaining control) and the reclassification of other comprehensive loss to profit or loss of RMB50.8 million (representing our share of HPL's cumulative exchange differences on translation on the acquisition date). For details, please see Note 35 to the Accountants' Report in Appendix IA to this prospectus.

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The following table sets forth a breakdown of our other income and gains for the periods indicated.

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Government grants	21,341	59,302	80,196	47,024	41,899
Bank interest income	17,458	14,277	14,786	6,981	12,583
Investment income from financial assets at fair value					
through profit or loss	29,140	1,378	141	—	—
Gain on step acquisition of subsidiaries	—	—	282,574	—	—
Gain on disposal of a subsidiary	—	11,085	—	—	—
Foreign exchange gains, net	—	33,050	40,627	—	—
Changes in fair value of financial assets at fair value					
through profit or loss	—	—	—	—	44,382
Others	<u>3,007</u>	<u>3,314</u>	<u>6,576</u>	<u>2,103</u>	<u>10,060</u>
Total	<u>70,946</u>	<u>122,406</u>	<u>424,900</u>	<u>56,108</u>	<u>108,924</u>

Selling and Distribution Expenses

In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our selling and distribution expenses were RMB55.9 million, RMB50.1 million, RMB124.1 million, RMB23.3 million and RMB43.2 million, respectively, accounting for 0.6%, 0.6%, 1.0%, 0.6% and 0.4% of our total revenue for the same periods, respectively.

Our selling and distribution expenses consist of (1) staff costs, which mainly represent salaries and benefits for our sales and marketing personnel, (2) inspection fees in connection with the inspection of imported nickel ore and ferronickel conducted by third-party inspection agencies, (3) travel and entertainment expenses, and (4) others, which primarily include professional services fees, insurance fees, transportation fees and office expenses.

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The following table sets forth a breakdown of our selling and distribution expenses, in absolute amounts and as a percentage of our total selling and distribution costs, for the periods indicated.

	Year ended December 31,						Six months ended June 30,					
	2019		2020		2021		2021		2022			
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)		
	<i>(Unaudited)</i>											
Staff costs	28,046	50.2	31,656	63.2	97,466	78.5	12,217	52.3	32,737	75.8		
Inspection fees	12,576	22.5	7,579	15.1	11,018	8.9	3,851	16.5	5,613	13.0		
Travel and entertainment expenses	11,464	20.5	8,944	17.9	10,570	8.5	4,542	19.4	2,320	5.3		
Others	3,783	6.8	1,949	3.8	5,070	4.1	2,736	11.8	2,500	5.9		
Total	55,869	100.0	50,128	100.0	124,124	100.0	23,346	100.0	43,170	100.0		

Administrative Expenses

In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our administrative expenses were RMB132.5 million, RMB174.2 million, RMB301.1 million, RMB110.3 million and RMB480.2 million, respectively, accounting for 1.4%, 2.2%, 2.4%, 2.7% and 4.8% of our total revenue for the same periods, respectively. Our administrative expenses increased significantly from RMB110.3 million in the six months ended June 30, 2021 to RMB480.2 million in the same period of 2022, primarily due to increases in headcount and employee salaries for project management staff as a result of our acquisition of HPL.

Our administrative expenses consist of (1) staff costs, which represent salaries and benefits for our administrative personnel, (2) bank charges primarily in relation to wire transfer and the issuance of letter of credit in connection with our import of nickel ore and ferronickel, (3) tax fees, which represent stamp duties and surcharges, (4) professional fees, representing services fees we paid to legal counsel and other third party professionals, (5) office, travel and entertainment expenses, (6) depreciation and amortization related to our fixed assets and intangible assets, (7) research and development expenses, which were primarily incurred by Xi'an Pengyuan in relation to its research and development of nickel product production equipment, (8) repair and maintenance fees, (9) on-site expenses in connection with our operations in Indonesia, which primarily consist of expenses related to the construction of the HPAL and RKEF projects, such as HPL staff's accommodation costs, canteen costs and other on-site expenses, and (10) others, which primarily include material consumption fees, COVID prevention expenses and other miscellaneous expenses.

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The following table sets forth a breakdown of our administrative expenses, in absolute amount and as a percentage of our total administrative expenses, for the periods indicated.

	Year ended December 31,						Six months ended June 30,					
	2019		2020		2021		2021		2022			
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)		
	<i>(Unaudited)</i>											
Staff costs	72,695	54.8	103,846	59.6	200,831	66.7	83,566	75.7	279,007	58.1		
Bank charges	3,544	2.7	2,559	1.5	3,712	1.2	1,773	1.6	2,801	0.6		
Tax fees	15,748	11.9	22,875	13.1	10,190	3.4	3,252	2.9	16,322	3.4		
Office, travel and entertainment expenses	12,045	9.1	12,764	7.3	19,722	6.5	6,603	6.0	41,370	8.6		
Depreciation and amortization	7,991	6.0	8,171	4.7	16,859	5.6	4,279	3.9	30,826	6.4		
Research and development expenses	3,054	2.3	4,436	2.5	7,893	2.6	994	0.9	4,697	1.0		
Repair and maintenance fee	3,756	2.8	5,059	2.9	13,944	4.6	3,835	3.5	3,161	0.7		
Professional fees	2,846	2.1	2,487	1.4	7,286	2.4	2,054	1.9	11,331	2.4		
Indonesian on-site expenses												
Living supplies	—	—	—	—	3,055	1.0	—	—	30,140	6.3		
Catering, laundry and housekeeping	—	—	—	—	2,717	0.9	—	—	21,348	4.4		
Clean water and electricity	—	—	—	—	988	0.3	—	—	10,153	2.1		
Other on-site expenses	—	—	—	—	1,138	0.4	—	—	475	0.1		
	—	—	—	—	7,898	2.6	—	—	62,116	12.9		
Others ⁽¹⁾	10,868	8.3	11,981	7.0	12,799	4.4	3,986	3.6	28,561	5.8		
Total	132,547	100.0	174,178	100.0	301,134	100.0	110,342	100.0	480,192	100.0		

Note:

(1) Primarily including material consumption fees, COVID prevention expenses and other miscellaneous expenses.

The significant increase in Indonesian on-site expenses in the six months ended June 30, 2022 was due to our consolidation of HPL since November 2021.

Finance Costs

In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our finance costs were RMB66.6 million, RMB42.2 million, RMB79.3 million, RMB25.5 million and RMB108.5 million, respectively.

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Finance costs consist of (1) interest on bank borrowings, which represents interest incurred on import bill advances under letter of credit in connection with our import of nickel ore and ferronickel, (2) interest on other borrowings, and (3) interest on lease liabilities. The following table sets forth a breakdown of our finance costs for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Interest on bank borrowings	59,513	38,599	74,004	23,847	104,325
Interest on other borrowings	6,955	3,384	5,077	1,530	2,783
Interest on lease liabilities	91	193	244	89	1,409
	<u>66,559</u>	<u>42,176</u>	<u>79,325</u>	<u>25,466</u>	<u>108,517</u>

Other Operating Expenses

The following table sets forth a breakdown of our other operating expenses, in absolute amount and as a percentage of our total other operating expenses, for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
						<i>(Unaudited)</i>				
Donations	92	0.7	23,016	57.2	5,225	5.7	3,663	6.4	2,940	2.6
Loss on disposal of fixed assets	15	0.1	2,424	6.0	9,020	9.8	8,486	14.7	2,743	2.5
Investment loss from futures products	—	—	10,163	25.3	41,216	44.8	31,279	54.3	87,078	78.2
Foreign exchange losses	12,619	91.4	—	—	—	—	5,091	8.8	15,829	14.2
Changes in fair value of financial assets at fair value through profit or loss	—	—	—	—	6,771	7.4	4,196	7.3	—	—
Additional transportation costs	—	—	—	—	23,720	25.8	—	—	—	—
Others	1,086	7.8	4,629	11.5	5,992	6.5	4,924	8.5	2,740	2.5
Total	<u>13,812</u>	<u>100.0</u>	<u>40,232</u>	<u>100.0</u>	<u>91,944</u>	<u>100.0</u>	<u>57,639</u>	<u>100.0</u>	<u>111,330</u>	<u>100.0</u>

Other operating expenses primarily consist of loss in futures products and foreign exchange losses, which accounted for 91.4%, 25.3%, 44.8%, 63.1% and 92.4% of other operating expenses in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Other operating expenses also include donations, loss on disposal of fixed assets and additional transportation costs incurred due to the COVID-19 outbreak.

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Loss from futures products. In 2020, 2021 and six months ended June 30, 2022, we incurred RMB10.2 million, RMB41.2 million and RMB87.1 million net loss from settled futures products as investment losses, respectively, which was primarily as a result of increases in LME nickel prices. In 2021 and the six months ended June 30, 2022, we recorded RMB6.8 million and nil book loss of changes in fair value of financial assets at fair value through profit or loss under other operating expenses for unsettled futures products, respectively. See “Business — Risk Management — Russia-Ukraine Conflict and LME Nickel Price Spike.”

Foreign exchange losses. We recorded net exchange losses of RMB12.6 million and RMB15.8 million in 2019 and the six months ended June 30, 2022, respectively, which was primarily due to the depreciation of RMB against U.S. dollars. We did not incur any net exchange losses in 2020 or 2021. See “— Other income and gains” for more information on our foreign exchange gains and losses.

In addition, we also recorded RMB23.0 million of donations in relation to COVID-19 prevention in 2020 and RMB23.7 million additional transportation costs due to the COVID-19 outbreak in 2021.

Income Tax Expenses

In 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, we incurred income tax expenses of RMB218.4 million, RMB182.1 million, RMB179.2 million, RMB48.7 million and RMB102.9 million, respectively.

Our effective tax rate was 27.8%, 26.0%, 12.5%, 35.4% and 4.3% in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. Our effective tax rate was 12.5% and 4.3% in 2021 and the six months ended June 30, 2022, respectively. The relatively low effective tax rates were primarily because HPL enjoyed certain corporate income tax exemptions in Indonesia and we have consolidated HPL’s financial results into our consolidated financial statements since November 30, 2021. Our effective tax rate was 35.4% for the six months ended June 30, 2021. The relatively high effective tax rate was primarily due to decrease in profits, as we incurred higher losses attributable to our associate companies.

We are subject to various rates of income tax under different jurisdictions. The following summarizes major factors affecting our applicable tax rates in the PRC, Hong Kong, Indonesia and Singapore.

During the Track Record period and up to the Latest Practicable Date, we had not been involved in any material disputes or unresolved tax issues with the relevant tax authorities.

PRC

Under the New EIT Law effective from January 1, 2008, as amended on December 29, 2018, we and our PRC subsidiaries are subject to the statutory rate of 25%, subject to preferential tax

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treatments available to qualified enterprises in certain encouraged sectors of the economy. Pursuant to the Administrative Measures for Determination of High-Tech Enterprises (Guokefahuo [2016] No.32), our subsidiary Xi'an Pengyuan obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% from 2019 to 2022.

Hong Kong

Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

Overseas

Taxation for our overseas subsidiaries is charged at the appropriate current rate of taxation ruling in the relevant countries and regions. Pursuant to the income tax rules and regulations of the Indonesia, subsidiaries in different industries abroad are subject to different tax rates, with general flat rate of 22% applies as Corporate Income Tax. In addition, the HPAL and RKEF projects in Indonesia enjoy a ten-year CIT exemption. Our subsidiary incorporated in Singapore was subject to Singapore Corporate Income Tax at 17% during the Track Record Period.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenue

Revenue increased significantly from RMB4,088.3 million in the six months ended June 30, 2021 to RMB9,978.3 million in the same period of 2022. This increase was primarily attributable to an increase in revenue generated from our nickel product production business.

Nickel Product Trading

Revenue generated from our trading business increased by 46.8% from RMB2,867.8 million in the six months ended June 30, 2021 to RMB4,210.2 million in the same period of 2022, primarily due to increases in the average selling prices and sales volume of laterite nickel ore and ferronickel for our trading business as a result of increased customer demand. The increase was partially offset by a decrease in the sales of nickel-cobalt compounds as we began to record such revenue under nickel product production since November 30, 2021, as a result of our consolidation of HPL.

The average selling price of laterite nickel ore for our trading business increased by 25.0% from RMB0.4 thousand per metric ton in the six months ended June 30, 2021 to RMB0.5 thousand per metric ton in the same period of 2022, primarily due to an increase in the price of nickel ore. The annual average nominal price of nickel ore with nickel content between 1.5% to 1.6% increased from

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RMB558 per metric ton in the six months ended June 30, 2021 to RMB688 per metric ton in the same period of 2022, primarily due to increased demand in downstream industries. The sales volume of laterite nickel ore for our nickel product trading business remained relatively stable at 4,619,619 metric tons and 4,803,604 metric tons in the six months ended June 30, 2021 and 2022, respectively.

The average selling price of ferronickel for our trading business increased by 47.4% from RMB98.6 thousand per ton in the six months ended June 30, 2021 to RMB145.4 thousand per ton in the same period of 2022, primarily due to the unprecedented price spike in the LME nickel price since early March 2022. The annual average nominal price of ferronickel with nickel content between 7% to 10% increased from RMB1,124 per nickel point in the six months ended June 30, 2021 to RMB1,527 per nickel point in the same period of 2022. The sales volume of ferronickel for our nickel product trading business increased by 23.0% from 10,621 metal tons in the six months ended June 30, 2021 to 13,059 metal tons in the same period in 2022, primarily due to increased customer demand.

Nickel Product Production

Revenue generated from our production business increased significantly from RMB793.3 million in the six months ended June 30, 2021 to RMB4,950.7 million in the same period of 2022, primarily because we began to generate revenue from the sales of our self-produced nickel-cobalt compounds since November 30, 2021, as a result of our consolidation of HPL. Our sales volume of self-produced nickel-cobalt compounds was nil and 19,779 metal tons in the six months ended June 30, 2021 and 2022, respectively. Revenue generated from our self-produced ferronickel increased by 24.0% from RMB793.3 million in the six months ended June 30, 2021 to RMB983.8 million in the same period of 2022, primarily due to the increase in the average selling prices of ferronickel from RMB96.1 thousand per metal ton in the six months ended June 30, 2021 to RMB129.4 thousand per metal ton in the same period of 2022.

Equipment Manufacturing and Sale

Revenue generated from our equipment manufacturing and sale business increased by 89.9% from RMB353.5 million in the six months ended June 30, 2021 to RMB671.4 million in the same period of 2022, primarily due to increased sales of machinery and equipment to HJF, as the construction of the RKEF project continued.

Others

Other revenue increased by 98.2% from RMB73.6 million in the six months ended June 30, 2021 to RMB146.0 million in the same period of 2022, primarily as a result of (i) sale of auxiliary materials to HJF, primarily including semi-coke and coke, and (ii) an increase in revenue from vessel subleasing and sale of wastes.

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Cost of Sales

Cost of sales increased by 84.6% from RMB3,735.4 million in the six months ended June 30, 2021 to RMB6,894.1 million in the same period of 2022, which was in line with the increase in our revenue.

For our trading business, cost of laterite nickel ore increased by 29.0% from RMB985.1 million in the six months ended June 30, 2021 to RMB1,270.5 million in the same period of 2022, primarily due to the increase in the average selling prices of laterite nickel ore. Cost of ferronickel increased by 72.7% from RMB1,025.3 million to RMB1,770.7 million, primarily because the cost per unit sold of ferronickel increased from RMB96.5 thousand per ton to RMB135.6 thousand per ton.

For our production business, costs of raw materials increased significantly from RMB403.4 million in the six months ended June 30, 2021 to RMB1,640.2 million in the same period of 2022; costs of ancillary materials increased significantly from RMB107.3 million in the six months ended June 30, 2021 to RMB219.3 million in the same period of 2022. These increases were primarily as a result of our consolidation of HPL since November 30, 2021.

Transportation costs increased by 56.2% from RMB576.0 million in the six months ended June 30, 2021 to RMB899.8 million in the six months ended June 30, 2022, primarily due to the expansion of our vessel leasing business and increase in shipping costs.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased significantly from RMB352.9 million in the six months ended June 30, 2021 to RMB3,084.2 million in the same period of 2022. Our gross profit margin increased from 8.6% in the six months ended June 30, 2021 to 30.9% in the same period of 2022, which was primarily due to higher profit margin for our trading and production businesses in the six months ended June 30, 2022, primarily due to higher average selling price of our nickel products as a result of an increase in nickel price, which was due to market growth and an unprecedented price spike in the LME nickel price attributable to the geo-political conflict in early 2022.

Nickel Product Trading

Gross profit for our trading business increased significantly from RMB213.1 million in the six months ended June 30, 2021 to RMB435.7 million in the same period of 2022. Gross profit margin for our trading business increased from 7.4% to 10.3% during the same periods, primarily due to increases in the average selling prices of nickel ore and ferronickel.

Gross profit margin for our laterite nickel ore trading business increased from 12.1% in the six months ended June 30, 2021 to 14.5% in the same period of 2022, primarily due to an increase in the average selling price of nickel ore. The average selling price of nickel ore increased by 25.0% from

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RMB0.4 thousand per metric ton in the six months ended June 30, 2021 to RMB0.5 thousand per metric ton in the same period of 2022, which was consistent with the increase in prevailing market prices of nickel ore. The annual average nominal price of nickel ore with nickel content between 1.5% to 1.6% increased from RMB558 per metric ton in the six months ended June 30, 2021 to RMB688 per metric ton in the same period of 2022. Meanwhile, we procured a majority of nickel ore for our trading business in the six months ended June 30, 2021 and 2022 from the Philippines. Attributable to our stable, long-term cooperation with suppliers of nickel ore from the Philippines, we managed to secure relatively stable nickel ore procurement prices from these suppliers. As a result, the cost per unit sold of laterite nickel ore in the six months ended June 30, 2021 and 2022 remained relatively stable within the range of RMB0.2 - 0.3 thousand per metric ton.

Gross profit margin for our ferronickel trading business increased from 0.9% in the six months ended June 30, 2021 to 5.3% in the same period of 2022, primarily because we sold ferronickel to one of our major customers at significantly higher selling prices in the six months ended June 30, 2022. As our ferronickel sold to one of our major customers are priced based on the LME price, which experienced an unprecedented price spike in March 2022, our average selling price of ferronickel sold to that customer was significantly higher than the increase in cost per unit sold of such ferronickel in the six months ended June 30, 2022. Excluding ferronickel sold to that customer, gross profit margin for our ferronickel trading business was 1.0% in the six months ended June 30, 2022.

Nickel Product Production

Gross profit for our production business increased significantly from RMB95.4 million in the six months ended June 30, 2021 to RMB2,524.1 million in the same period of 2022. Gross profit margin for our nickel product production business increased from 12.0% to 51.0% during the same periods, primarily because we began to generate revenue from the sales of our self-produced nickel-cobalt compounds, which had higher gross profit margins compared to self-produced ferronickel, since November 30, 2021, as a result of our consolidation of HPL. Gross profit margin for our self-produced ferronickel remained relatively stable at 12.0% and 12.4% in the six months ended June 30, 2021 and the same period of 2022, respectively.

Equipment Manufacturing and Sale

Gross profit for our equipment manufacturing and sale business increased significantly from RMB30.0 million in the six months ended June 30, 2021 to RMB114.6 million in the same period of 2022. Gross profit margin from our equipment manufacturing and sales business increased from 8.5% in the six months ended June 30, 2021 to 17.1% in the same period of 2022, primarily because certain equipment we sold to HJF in the six months ended June 30, 2022 had higher gross profit margin.

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Others

Gross profit for other businesses decreased by 32.1% from RMB14.5 million in the six months ended June 30, 2021 to RMB9.8 million in the same period of 2022. Gross profit margin for other businesses decreased from 19.7% to 6.7% during the same periods, primarily because vessel sublease in the six months ended June 30, 2021 had relatively higher profit margin, while its profit margin was relatively low for the six months ended June 30, 2022.

Other Income and Gains

Other income and gains increased by 94.1% from RMB56.1 million in the six months ended June 30, 2021 to RMB108.9 million in the same period of 2022, primarily attributable to our gains of RMB44.3 million from the change in fair value of the hedging instrument recognized under HPL's interest rate swap agreement.

Selling and Distribution Expenses

Selling and distribution expenses increased by 84.9% from RMB23.3 million in the six months ended June 30, 2021 to RMB43.2 million in the same period of 2022, primarily attributable to a RMB20.5 million increase in staff costs, as (i) increased levels of compensation for our employees, and (ii) an increase in our sales and marketing personnel as a result of our acquisition of HPL.

Administrative Expenses

Administrative expenses increased significantly from RMB110.3 million in the six months ended June 30, 2021 to RMB480.2 million in the same period of 2022, primarily due to increase in headcount and employee salaries as a result of our acquisition of HPL.

Other Operating Expenses

Our other operating expenses increased by 93.2% from RMB57.6 million in the six months ended June 30, 2021 to RMB111.3 million in the same period of 2022, primarily due to increased loss in futures products. See "Risk Factors — Risks Relating to Our Business and Industry — Our results of operations and financial condition may be adversely affected by our purchase of derivative financial instruments. We may be exposed to fair value changes for financial assets at fair value through profit or loss" for more details.

Finance Costs

Finance costs increased significantly from RMB25.5 million in the six months ended June 30, 2021 to RMB108.5 million in the same period of 2022, primarily due to a RMB80.5 million increase in interest on bank borrowings, as our bank borrowings increased as a result of our acquisition of HPL.

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Share of Profits and Losses of Associates

Share of losses of associates increased by 3.3% from RMB53.0 million in the six months ended June 30, 2021 to RMB54.7 million in the six months ended June 30, 2022, which was primarily due to increased losses incurred by HJF, as the RKEF project has not yet commenced production.

Employee Benefit Expense

Our employee benefit expense (excluding directors' and supervisors' remuneration) increased significantly from RMB122.8 million in the six months ended June 30, 2021 to RMB409.1 million in the six months ended June 30, 2022, primarily due to an increase in wages and salaries from RMB106.8 million to RMB375.9 million in the same period, as a result of (i) an increase in our number of personnel due to the acquisition of HPL in November 2021, including HPL's personnel and personnel in China to support the HPAL project, (ii) an increase in accrued performance bonus, and (iii) increased level of compensation for our employees.

Profit Before Tax

As a result of the foregoing, our profit before tax increased significantly from RMB137.6 million in the six months ended June 30, 2021 to RMB2,392.5 million in the same period of 2022.

Income Tax Expenses

Income tax expenses increased significantly from RMB48.7 million in the six months ended June 30, 2021 to RMB102.9 million in the six months ended June 30, 2022.

Profit for the Period

As a result of the foregoing, our profit for the period increased significantly from RMB89.0 million in the six months ended June 30, 2021 to RMB2,289.6 million in the same period of 2022. Our net profit margin was 22.9% in the six months ended June 30, 2022, compared to 2.2% in the same period in 2021.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Revenue increased by 60.5% from RMB7,755.2 million in 2020 to RMB12,449.3 million in 2021. The increase in revenue was primarily attributable to an increase in revenue generated from our nickel product trading business.

Nickel Product Trading

Revenue generated from our trading business increased by 75.2% from RMB5,005.5 million in 2020 to RMB8,771.1 million in 2021, primarily driven by (i) increases in both the average selling

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price and sales volume of nickel ore for our trading business, (ii) increases in both the average selling price and sales volume of ferronickel for our trading business, and (iii) commencement of sale of nickel-cobalt compounds purchased from HPL (the project company for phases I and II of the HPAL project), as phase I of the HPAL project commenced the production of nickel-cobalt compounds in May 2021.

The average selling price of laterite nickel ore for our trading business increased from RMB0.3 thousand per metric ton in 2020 to RMB0.4 thousand per metric ton in 2021, primarily due to an increase in the price of nickel ore. The annual average nominal price of nickel ore with nickel content between 1.5% to 1.6% increased from RMB550 per metric ton in 2020 to RMB629 per metric ton in 2021, as a result of global loose monetary policy environment and strong demand from the stainless steel industry. The sales volumes of laterite nickel ore for our trading business increased by 9.2% from 10,677,613 metric tons in 2020 to 11,655,645 metric tons in 2021, primarily because (i) we managed to procure a higher volume of nickel ore from the Philippines in 2021 at a generally lower price than that from Indonesia prior to the export ban. In 2021, we purchased 11.5 million metric tons of laterite nickel ore from the Philippines, compared to 10.2 million metric tons in 2020; and (ii) there was increased customer demand, due to the stable growth of the stainless steel industry. See “Industry Overview — Overview of Major Downstream Industries of Global and China Nickel Consumption — Stainless Steel Industry” for more details.

The average selling price of ferronickel for our trading business increased from RMB90.8 thousand per metal ton in 2020 to RMB109.7 thousand per metal ton in 2021, primarily due to an increase in nickel price. The annual average nominal price of ferronickel with nickel content between 7% to 10% increased from RMB1,019 per nickel point in 2020 to RMB1,269 per nickel point in 2021, as a result of decreasing ferronickel production volume in China (given that certain smelting and refining companies and stainless steel manufacturers which used to produce ferronickel on their own using nickel ore from Indonesia could no longer do so since 2020) and strong downstream demand from the stainless steel industry. The sales volume of ferronickel for our trading business increased by 20.7% from 20,694 metal tons in 2020 to 24,975 metal ton in 2021, as our ferronickel trading business continued to grow as a result of increasing demand from our ferronickel customers. Because of the Indonesian government’s export ban, certain smelting and refining companies and stainless steel manufacturers, which used to purchase nickel ore to produce ferronickel on their own, were no longer able to do so and instead increased their purchase of ferronickel.

Nickel Product Production

Revenue generated from our production business increased by 49.1% from RMB1,642.0 million in 2020 to RMB2,448.5 million in 2021, primarily because we began to generate revenue from the sales of our self-produced nickel-cobalt compounds since November 30, 2021. The increase was partially offset by a decrease in our self-produced ferronickel, which was primarily due to (i) our Jiangsu Facilities had to temporarily shut down in September 2021 due to power shortages. This power shortage, which was a result of the local government’s electricity rationing efforts targeting

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energy intensive enterprises in Jiangsu province, lasted 17 days, during which our Jiangsu Facilities had to temporarily suspend its production activities. As a result of the power shortage, our Jiangsu Facilities' monthly production volume in September 2021 decreased to 419 metal tons of ferronickel, reflecting an over 70% decrease from that of the same periods in 2019 and 2020, respectively. Although our Jiangsu Facilities resumed operation in October 2021, it continued to be subject to electricity rationing measures from time to time in October 2021, which also adversely affected its ferronickel production; and (ii) we proactively reduced the production of self-produced ferronickel due to reasons including (a) a higher percentage of nickel ore (which is used as raw material for our ferronickel production) we purchased for our ferronickel production in 2021 was from the Philippines, which generally had lower nickel content. In 2021, 61.5% of the volume of nickel ore procured for our ferronickel production was from the Philippines, compared to 34.5% in 2020; and (b) the costs of ancillary materials primarily including coal and reducing agent, increased by 44.6% from RMB164.8 million in 2020 to RMB238.3 million in 2021.

Equipment Manufacturing and Sale

Revenue generated from our equipment manufacturing and sale business remained relatively stable at RMB1,020.2 million in 2020 and RMB1,003.4 million in 2021. The slight decrease was primarily due to decreased equipment sales to HPL (the project company for phases I and II of the HPAL project in which we held a 36.9% equity interest prior to November 29, 2021), as the majority of equipment required for phases I and II of the HPAL project had been sold in 2020. The slight decrease was partially offset by an increase in equipment sold to HJF in 2021, as Phase I of the RKEF project was under construction and required various types of machinery and equipment. We acquired an additional 18.0% equity interest in HPL on November 29, 2021 and have since November 30, 2021 consolidated its results into our consolidated financial statements.

Others

Other revenue increased significantly from RMB87.4 million in 2020 to RMB226.4 million in 2021, primarily because we began to generate revenue from vessel subleasing, where we sub-lease vessels we leased to transport our nickel products to third parties and charge a sublease fee.

Cost of Sales

Cost of sales increased by 60.7% from RMB6,802.5 million in 2020 to RMB10,933.4 million in 2021, which was largely in line with the increase in our revenue.

For our trading business, cost of laterite nickel ore increased by 24.7% from RMB2,035.1 million in 2020 to RMB2,537.0 million in 2021, primarily because (i) the volume of laterite nickel ore we sold increased by 9.2% from 10,677,613 metric tons in 2020 to 11,655,645 metric tons in 2021, as we managed to procure an increased volume of nickel ore from the Philippines in response to increased customer demand, and (ii) the cost per unit sold of laterite nickel ore increased from RMB0.19 thousand per metric ton in 2020 to RMB0.22 thousand per metric ton in 2021. Cost of

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ferronickel for our trading business increased by 45.7% from RMB1,824.4 million in 2020 to RMB2,657.6 million in 2021, as (i) the volume of ferronickel we sold increased by 20.7% from 20,694 metal tons in 2020 to 24,975 metal tons in 2021 in line with increased customer demand, and (ii) the cost per unit sold of ferronickel increased from RMB88.2 thousand per metal ton in 2020 to RMB106.4 thousand per metal ton in 2021. In 2021, we also incurred RMB1,217.1 million costs for the sales of nickel-cobalt compounds.

For our production business, cost of raw materials increased by 54.0% from RMB773.4 million in 2020 to RMB1,191.0 million in 2021, primarily as a result of (i) our consolidation of HPL, which produces MHP, since November 30, 2021, and (ii) an increase in cost per unit sold of ferronickel from RMB43.0 thousand per metal ton in 2020 to RMB51.6 thousand per metal ton in 2021. Cost of ancillary materials increased by 44.6% from RMB164.8 million in 2020 to RMB238.3 million in 2021, primarily due to (i) increased prices of coal and reducing agent, the ancillary materials for our ferronickel production, and (ii) cost of ancillary materials for MHP, as a result of our consolidation of HPL since November 30, 2021.

Transportation costs increased significantly from RMB684.9 million in 2020 to RMB1,758.7 million in 2021, which was primarily due to an increase in shipping fees as well as an increase in sales volume of our nickel products for both our trading and production businesses.

Gross Profit and Gross Profit Margin

As a result of the foregoing, gross profit increased by 59.1% from RMB952.7 million in 2020 to RMB1,515.9 million in 2021. Gross profit margin remained relatively stable at 12.3% in 2020 and 12.2% in 2021.

Nickel Product Trading

Gross profit for our trading business increased by 54.1% from RMB480.1 million in 2020 to RMB739.7 million in 2021. Gross profit margin for our trading business decreased from 9.6% to 8.4% during the same periods, primarily because we sold an increased volume of ferronickel and nickel-cobalt compounds in our trading business in 2021, which had relatively lower gross margin. Excluding the trading of nickel-cobalt compounds, gross profit margins for our nickel product trading business remained relatively stable at 9.6% and 9.8% in 2020 and 2021, respectively.

Nickel Product Production

Gross profit for our production business increased by 65.7% from RMB378.1 million in 2020 to RMB626.6 million in 2021. Gross profit margin for our nickel product production business increased from 23.0% to 25.6% during the same periods, primarily because we began to generate revenue from sales of our self-produced nickel-cobalt compounds, which had relatively higher gross margin, since November 30, 2021, as a result of our consolidation of HPL. Gross profit margin for our self-produced ferronickel decreased from 23.0% in 2020 to 16.2% in 2021, primarily due to (i) increased

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prices of coal and reducing agent, ancillary materials for our ferronickel production, and (ii) an increase in per unit production cost as a result of a decrease in production volume.

Equipment Manufacturing and Sale

Gross profit for our equipment manufacturing and sale business increased by 25.2% from RMB89.2 million in 2020 to RMB111.6 million in 2021. Gross profit margin from our equipment manufacturing and sales business increased from 8.7% in 2020 to 11.1% in 2021, primarily because certain equipment we sold to HPL and HJF in 2021 had higher gross margin.

Others

Gross profit for other businesses increased significantly from RMB5.3 million in 2020 to RMB37.9 million in 2021. Gross profit margin for other business increased from 6.0% to 16.8% during the same periods, primarily because our sale of wastes and provision of related services, and vessel sublease business in 2021 had relatively higher margin.

Other Income and Gains

Other income and gains increased significantly from RMB122.4 million in 2020 to RMB424.9 million in 2021, primarily attributable to our gains of RMB282.6 million in step acquisition of subsidiaries and an increase of RMB20.9 million in government grants in 2021.

Selling and Distribution Expenses

Selling and distribution expenses increased significantly from RMB50.1 million in 2020 to RMB124.1 million in 2021, primarily attributable to a RMB65.8 million increase in staff costs, as (i) we hired more sales and marketing personnel due to our business expansion, (ii) increased levels of compensation for our employees, and (iii) we were eligible for certain social insurance and housing provident fund related relief in 2020 but not in 2021.

Administrative Expenses

Administrative expenses increased by 72.9% from RMB174.2 million in 2020 to RMB301.1 million in 2021, primarily due to a RMB97.0 million increase in our staff costs, which was mainly because (i) an increase in our headcount as our business continued to expand, and (ii) increased levels of compensation for our employees.

Other Operating Expenses

Our other operating expenses increased significantly from RMB40.2 million in 2020 to RMB91.9 million in 2021, primarily due to increased loss in futures products. See “Risk Factors — Risks Relating to Our Business and Industry — Our results of operations and financial condition may be adversely affected by our purchase of derivative financial instruments. We may be exposed to fair value changes for financial assets at fair value through profit or loss” for more details.

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Finance Costs

Finance costs increased by 88.1% from RMB42.2 million in 2020 to RMB79.3 million in 2021, primarily due to a RMB35.4 million increase in interest on bank borrowings. The increase in interest on bank borrowings was primarily due to the growth of our nickel product trading business and our acquisition of HPL.

Share of Profits and Losses of Associates

We recorded share of profits of associates of RMB99.0 million in 2021, compared to share of losses of associates of RMB68.1 million in 2020. This change was primarily because HPL (which used to be our associate until it became our subsidiary on November 30, 2021) began to generate revenue by selling nickel-cobalt compound products in 2021. Share of profits of associates in 2021 was partially offset by losses incurred by HJF as the construction of the RKEF project continued.

Profit Before Tax

As a result of the foregoing, our profit before tax increased significantly from RMB700.4 million in 2020 to RMB1,439.1 million in 2021.

Income Tax Expenses

Income tax expenses decreased by 1.6% from RMB182.1 million in 2020 to RMB179.2 million 2021, primarily due to a decrease in our taxable income, primarily as a result of our acquisition of HPL (which enjoys preferential tax treatment in Indonesia).

Profit for the Year

As a result of the foregoing, our profit for the year increased significantly from RMB518.3 million in 2020 to RMB1,260.0 million in 2021. Our net profit margin increased from 6.7% in 2020 to 10.1% in 2021.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Revenue decreased by 17.0% from RMB9,347.4 million in 2019 to RMB7,755.2 million in 2020. The decrease was primarily due to a decrease in revenue generated from our trading business and production business, partially offset by an increase in revenue generated from our equipment manufacturing and sale business and other businesses.

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Nickel Product Trading

Revenue generated from our trading business decreased by 23.0% from RMB6,498.3 million in 2019 to RMB5,005.5 million in 2020, primarily due to a decrease in sales volume of nickel ore and a decrease in the average selling price of our ferronickel for our trading business.

The sales volume of laterite nickel ore for our trading business decreased by 39.4% from 17,633,427 metric tons in 2019 to 10,677,613 metric tons in 2020. The decrease was primarily due to the Indonesian government's export ban on nickel ore starting January 1, 2020, as a result of which we could no longer procure nickel ore from Indonesia, and it took some time for us to secure a significantly higher volume of nickel ore from other countries and regions including the Philippines. In 2019, 34.8% of the volume of nickel ore for our trading business was from Indonesia. In addition, as some of our customers stocked up on nickel ore inventory from Indonesia in late 2019 in anticipation of the export ban, customer demand for our nickel ore products decreased in 2020. The COVID-19 situation also had a negative impact on global nickel ore trading in early 2020. Due to the combined impact of the export ban and the COVID-19 pandemic, the volume of global nickel ore trading decreased by 28.0% from 2019 to 2020. The average selling price of laterite nickel ore remained relatively stable in 2019 and 2020.

The sales volume of our ferronickel for our trading business increased from 14,500 metal tons in 2019 to 20,694 metal tons in 2020 as a result of increasing demand from our ferronickel customers. Because of the Indonesian government's export ban, certain smelting and refining companies and stainless steel manufacturers, which used to purchase nickel ore to produce ferronickel on their own, were no longer able to do so and instead increased their purchase of ferronickel. The average selling price of ferronickel for our trading business decreased from RMB95.0 thousand per metal ton in 2019 to RMB90.8 thousand per metal ton in 2020, primarily because there was a significant decrease in nickel price and customer demand in early 2020 as a result of the COVID-19 outbreak, and as the market demand revived in the second quarter of 2020, we sold a higher volume of ferronickel when the nickel price was relatively low.

Nickel Product Production

Revenue generated from our production business decreased by 30.3% from RMB2,357.4 million in 2019 to RMB1,642.0 million in 2020, primarily due to the closedown of a manufacturing facility with two ferronickel production lines in December 2019. The manufacturing facility was operated by Xiangxiang Enterprise, which was disposed of by us in 2020. Please see "Business — Production of Nickel Products — Production of Ferronickel" for more details. The average selling price of our self-produced ferronickel remained relatively stable at RMB93.0 thousand per metal ton in 2019 and RMB91.4 thousand per metal ton in 2020.

Equipment Manufacturing and Sale

Revenue generated from our equipment manufacturing and sale business increased significantly from RMB416.9 million in 2019 to RMB1,020.2 million in 2020, primarily due to increased sales of

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machinery and equipment used in the production of nickel products to HPL and HJF, as the construction of the HPAL and RKEF projects continued to progress. HPL is the project company of phases I and II of the HPAL project, in which we held a 36.9% equity interest before November 29, 2021. We acquired an additional 18.0% equity interest in HPL on November 29, 2021 and have since November 30, 2021 consolidated its results into our consolidated financial statements. HJF is the project company of phase I of the RKEF project, in which we hold a 36.9% equity interest.

Others

Revenue from other businesses increased by 16.8% from RMB74.8 million in 2019 to RMB87.4 million in 2020, primarily due to an increase in the sales of wastes generated during our production process.

Cost of Sales

Cost of sales decreased by 18.3% from RMB8,329.3 million in 2019 to RMB6,802.5 million in 2020, primarily due to decreased cost of sales for our trading business and production business, which was in line with the decrease in revenue of these businesses. The decrease was partially offset by increased cost of sales for our equipment manufacturing and sale business and other businesses, which was in line with the increase in revenue of these businesses.

For our trading business, cost of laterite nickel ore decreased by 40.5% from RMB3,422.5 million in 2019 to RMB2,035.1 million in 2020, primarily because the volume of nickel ore we sold decreased by 39.4% from 17,633,427 metric tons in 2019 to 10,677,613 metric tons in 2020, which was primarily due to Indonesian government's export ban and the COVID-19 outbreak. Cost of ferronickel increased by 33.5% from RMB1,367.0 million in 2019 to RMB1,824.4 million in 2020, as (i) the volume of ferronickel we sold increased by 42.7% from 14,500 metal tons in 2019 to 20,694 metal tons in 2020 in line with increased customer demand, and (ii) the cost per unit sold of ferronickel decreased from RMB94.3 thousand per metal ton in 2019 to RMB88.2 thousand per metal ton in 2020.

For our production business, the costs of raw materials, mainly including nickel ore, decreased by 25.0% from RMB1,031.4 million in 2019 to RMB773.4 million in 2020; cost of ancillary materials, primarily including coals and reducing agent used for the production of ferronickel, decreased by 44.7% from RMB298.2 million in 2019 to RMB164.8 million in 2020. These decreases were primarily due to the closedown of a manufacturing facility with two ferronickel production lines operated by Xiangxiang Enterprise in December 2019.

Transportation costs decreased by 38.2% from RMB1,108.6 million in 2019 to RMB684.9 million in 2020, which was primarily due to a decrease in sales volume of our nickel products for both our trading and production businesses.

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Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 6.4% from RMB1,018.1 million in 2019 to RMB952.7 million in 2020. Our gross profit margin increased from 10.9% in 2019 to 12.3% in 2020, primarily due to higher profit margin for our trading and production businesses in 2020.

Nickel Product Trading

Gross profit for our trading business decreased by 16.5% from RMB575.0 million in 2019 to RMB480.1 million in 2020, which was in line with the decrease in our revenue generated from our trading business. Gross profit margin from our trading business increased from 8.8% in 2019 to 9.6% in 2020, primarily due to higher profit margin for our nickel ore trading in 2020. As the price of nickel ore gradually recovered in mid-2020, we gained higher profit in the second half of 2020 by selling nickel ore we procured in early 2020 at lower procurement prices.

Nickel Product Production

Gross profit for our production business decreased by 4.5% from RMB395.7 million for the year ended December 31, 2019 to RMB378.1 million for year ended December 31, 2020, primarily due to the closedown of a manufacturing facility with two ferronickel production lines operated by Xiangxiang Enterprise. Gross profit margin for our production business increased from 16.8% in 2019 to 23.0% in 2020, primarily due to the accelerated depreciation of fixed assets in connection with the closedown of the manufacturing facility operated by Xiangxiang Enterprise in 2019.

Equipment Manufacturing and Sale

Gross profit for our equipment manufacturing and sale business increased significantly from RMB44.3 million in 2019 to RMB89.2 million in 2020, which was in line with the increase in our revenue generated from our equipment manufacturing and sale business. Gross profit margin for our equipment manufacturing and sale business decreased from 10.6% in 2019 to 8.7% in 2020, which was primarily due to certain machinery and equipment we sold to HPL in 2019 had higher selling prices.

Others

Gross profit for other businesses increased by 66.5% from RMB3.2 million in 2019 to RMB5.3 million in 2020. Gross profit margin for other businesses increased from 4.2% in 2019 to 6.0% in 2020, primarily because our sale of wastes in 2019 had lower gross margin.

Other Income and Gains

Other income and gains increased by 72.5% from RMB70.9 million in 2019 to RMB122.4 million in 2020, primarily due to (i) a RMB38.0 million increase in government grants, and (ii) a RMB33.1 million increase in net exchange gains.

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Selling and Distribution Expenses

Selling and distribution costs decreased by 10.3% from RMB55.9 million in 2019 to RMB50.1 million in 2020, primarily attributable to a RMB5.0 million decrease in inspection fees due to decreased sales volume of nickel ore for our trading business.

Administrative Expenses

Administrative expenses increased by 31.4% from RMB132.5 million in 2019 to RMB174.2 million in 2020, primarily due to an increase in staff costs and tax fees, as our business continued to grow.

Other Operating Expenses

Our other operating expenses increased significantly from RMB13.8 million in 2019 to RMB40.2 million in 2020, primarily attributable to increase in our donations related to epidemic preventions.

Finance Costs

Finance costs decreased by 36.6% from RMB66.6 million in 2019 to RMB42.2 million in 2020, primarily due to a decrease in interest on bank borrowings, as we no longer imported nickel ore from Indonesia in 2020 due to the Indonesian government's export ban and required a lower amount of import bill advance under letter of credit in connection with the import of nickel ore and ferronickel for our trading business.

Share of Profits and Losses of Associates

Our share of losses of associates increased by 98.1% from RMB34.4 million in 2019 to RMB68.1 million in 2020, primarily due to the losses incurred by HPL, mainly incurred for the construction of the HPAL project.

Profit before Tax

As a result of the foregoing, our profit before tax decreased by 10.8% from RMB785.1 million in 2019 to RMB700.4 million in 2020.

Income Tax Expenses

Our income tax expense decreased by 16.6% from RMB218.4 million in 2019 to RMB182.1 million in 2020, primarily due to decreased profit before tax.

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Profit for the Year

As a result of the foregoing, our profit for the year decreased by 8.5% from RMB566.7 million in 2019 to RMB518.3 million in 2020. Our net profit margin increased from 6.1% in 2019 to 6.7% in 2020.

WORKING CAPITAL

We recorded net current liabilities of RMB163.3 million, RMB275.8 million, and net current assets of RMB1,147.4 million, RMB2,202.3 million and RMB1,776.0 million, as of December 31, 2019, December 31, 2020, December 31, 2021, June 30, 2022 and September 30, 2022 (the “**Indebtedness Date**”), respectively. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of	As of
	2019	2020	2021	June 30,	September 30,
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
					<i>(Unaudited)</i>
Inventories	632,156	396,272	974,573	1,228,377	1,577,873
Trade and bills receivables	862,424	549,209	1,025,203	1,866,221	836,131
Prepayments, other receivables and other assets	554,258	439,589	528,601	624,886	1,088,380
Financial assets at fair value through profit or loss	187,050	152,398	—	76,157	15,100
Pledged deposits	301,423	202,157	598,398	649,253	605,094
Cash and cash equivalents	188,399	256,903	1,413,298	2,959,391	2,655,212
Due from related parties	350,178	204,556	103,478	154,945	264,383
Total current assets	<u>3,075,888</u>	<u>2,201,084</u>	<u>4,643,551</u>	<u>7,559,230</u>	<u>7,042,173</u>
Interest-bearing bank and other borrowings	1,493,866	1,024,498	1,155,912	2,581,957	2,665,311
Trade and bills payables	594,273	632,323	728,414	1,005,063	841,778
Lease liabilities	2,456	3,204	8,638	13,557	14,235
Other payables and accruals	203,967	193,625	836,247	1,002,074	1,099,953
Contract liabilities	240,936	318,435	296,921	152,152	352,257
Income tax payable	274,589	245,506	230,549	188,253	183,602
Due to related parties	429,150	59,324	232,728	413,906	109,012
Financial liabilities with the fair value changes through profit or loss	—	—	6,771	—	—
Total current liabilities	<u>3,239,237</u>	<u>2,476,915</u>	<u>3,496,180</u>	<u>5,356,962</u>	<u>5,266,148</u>
Net current (liabilities)/assets	<u>(163,349)</u>	<u>(275,831)</u>	<u>1,147,371</u>	<u>2,202,268</u>	<u>1,776,025</u>

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Our net current assets decreased from RMB2,202.3 million as of June 30, 2022 to RMB1,776.0 million as of September 30, 2022, primarily due to (i) a decrease of RMB1,030.1 million in trade and bills receivables, and (ii) a decrease of RMB304.2 million in cash and cash equivalents, partially offset by (i) an increase of RMB463.5 million in prepayments, other receivables and other assets, and (ii) an increase of RMB349.5 million in inventories.

Our net current assets increased from RMB1,147.4 million as of December 31, 2021 to RMB2,202.3 million as of June 30, 2022, primarily due to (i) an increase of RMB1,546.1 million in cash and cash equivalents; (ii) an increase of RMB841.0 million in trade and bills receivables; and (iii) an increase of RMB253.8 million in inventories, partially offset by an increase of RMB1,426.0 million in interest-bearing bank and other borrowings.

We had net current assets of RMB1,147.4 million as of December 31, 2021, compared to net current liabilities of RMB275.8 million as of December 31, 2020. The change in our financial position was primarily due to (i) an increase of RMB1,156.4 million in cash and cash equivalents; (ii) an increase of RMB578.3 million in inventories; and (iii) an increase of RMB476.0 million in trade and bills receivables, partially offset by an increase of RMB642.6 million in other payables and accruals in relation to HPL's purchase of fixed assets. The above changes were primarily attributable to our acquisition of HPL in November 2021.

Our net current liabilities increased by 68.9% from RMB163.3 million as of December 31, 2019 to RMB275.8 million as of December 31, 2020, primarily due to (i) a decrease of RMB145.6 million in due from related parties, primarily because Lygend Investment repaid a portion of loans extended by us, and (ii) a decrease of RMB313.2 million in trade and bills receivables, (iii) a decrease of RMB235.9 million in inventories, primarily because (a) we shut down a ferronickel manufacturing facility operated by Xiangxiang Enterprise in December 2019, and (b) we increased our nickel ore inventory in late 2019 in anticipation of the Indonesian government's export ban on nickel ore starting 2020, and (iv) a RMB99.3 million decrease in pledged deposits, partially offset by a decrease of RMB469.4 million in interest-bearing bank and other borrowings as we no longer imported nickel ore from Indonesia in 2020 and required a lower amount of import bill advance under letter of credit in connection with our import of nickel ore and ferronickel.

WORKING CAPITAL SUFFICIENCY

Taking into account cash and cash equivalents, our operating cash flows and the estimated net proceeds available to us from the Global Offering, our Directors believe, and the Joint Sponsors concur, that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

Our future cash requirements will depend on many factors, including our operating income, capital expenditures on property, plant and equipment and intangible assets, market acceptance of our products or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash due to

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changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to issue equity and/or debt securities or borrow from lending institutions. See “Risk Factors — Risks Relating to Our Business and Industry — Our businesses and operations require significant capital resources on an ongoing basis and we recorded net current liabilities and negative cash flows from operations during the Track Record Period.”

ANALYSIS OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, Plant and Equipment

Our property, plant and equipment consists of buildings, plant and machinery, electronic and office equipment, motor vehicles, leasehold improvements and construction in progress.

The following table sets forth a breakdown of our property, plant and equipment, as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Buildings	123,373	94,196	2,234,773	2,284,168
Plant and machinery	163,915	201,558	2,522,863	2,549,107
Electronic and office equipment	8,300	6,955	12,380	14,313
Motor vehicles	9,688	6,599	117,460	203,493
Leasehold improvements	152	361	74	4,185
Construction in progress	4,489	228	887,509	2,275,533
Total	<u>309,917</u>	<u>309,897</u>	<u>5,775,059</u>	<u>7,330,799</u>

Our property, plant and equipment increased by 26.9% from RMB5,775.1 million as of December 31, 2021 to RMB7,330.8 million as of June 30, 2022, which was primarily due to the continued construction of the HPAL project.

Our property, plant and equipment increased significantly from RMB309.9 million as of December 31, 2020 to RMB5,775.1 million as of December 31, 2021, which was primarily due to our acquisition of HPL.

Our property, plant and equipment remained relatively stable at RMB309.9 million and RMB309.9 million as of December 31, 2019 and 2020, respectively.

Inventories

Our inventories consist of (i) raw materials, which include laterite nickel ore procured for the production of our ferronickel products and nickel-cobalt compounds, (ii) work in progress, which

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include work-in-progress ferronickel, nickel-cobalt compounds and equipment, and (iii) finished goods, which mainly include laterite nickel ore, ferronickel and nickel-cobalt compounds procured for our trading business and finished ferronickel products produced. To minimize the risk of inventory build-up, we review our inventory levels on a regular basis. We believe that maintaining appropriate levels of inventories can help us better plan raw material procurement and deliver our products to meet customer demand in a timely manner without straining our liquidity.

The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	374,312	247,633	588,522	591,305
Work in progress	11,397	15,688	75,649	109,973
Finished goods	246,447	132,951	310,402	527,099
Total	<u>632,156</u>	<u>396,272</u>	<u>974,573</u>	<u>1,228,377</u>

Our inventory increased by 26.0% from RMB974.6 million as of December 31, 2021 to RMB1,228.4 million as of June 30, 2022, primarily due to (i) we increased our inventory of nickel ore and ferronickel in response to increased customer demand, and (ii) the continued production of nickel-cobalt compounds of the HPAL project.

Our inventory increased significantly from RMB396.3 million as of December 31, 2020 to RMB974.6 million as of December 31, 2021, primarily attributes to our acquisition of HPL.

Our inventory decreased by 37.3% from RMB632.2 million as of December 31, 2019 to RMB396.3 million as of December 31, 2020, primarily due to the Indonesian government's export ban on nickel ore starting January 1, 2020, as a result of which we increased our nickel ore inventory in 2019.

The following table sets forth our inventory turnover days for the periods indicated.

	Year ended December 31,			Six months
	2019	2020	2021	ended June 30, 2022
Inventory turnover days ⁽¹⁾	<u>23.1</u>	<u>27.6</u>	<u>22.9</u>	<u>28.8</u>

Note:

- (1) Inventory turnover days are equal to the average balance of inventory at the beginning and the end of the Track Record Period divided by cost of sales for such period and multiplied by 365 days for the years ended December 31, 2019, 2020 and 2021 and 180 days for the six months ended June 30, 2022.

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Our inventory turnover days increased from 22.9 days in 2021 to 28.8 days in the six months ended June 30, 2022, primarily due to an increase in our inventory of finished goods, as a result of (i) we increased our inventory of nickel ore and ferronickel in response to increased customer demand, and (ii) the continued production of nickel-cobalt compounds of the HPAL project.

Our inventory turnover days decreased from 27.6 days in 2020 to 22.9 days in 2021, primarily because our nickel products were of popular demand and were able to be sold more quickly in 2021.

Our inventory turnover days increased from 23.1 days in 2019 to 27.6 days in 2020, primarily because our sales temporarily slowed down in the first half of 2020 due to the COVID-19 outbreak.

As of September 30, 2022, RMB1,157.2 million, or 94.2% of our inventory balance as of June 30, 2022, had been consumed.

Trade and Bills Receivables

Our trade and bills receivables represent outstanding trade and bills receivables from our customers for the purchase of our products. An increase in sales to our customers would result in an increase in our trade and bills receivables. Trade and bills receivables are unsecured and non-interest-bearing.

The following table sets forth our trade and bills receivables as of the dates indicated.

	<u>As of December 31,</u>			<u>As of June 30,</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	863,753	500,872	1,015,990	1,867,017
Bills receivable measured at amortized cost	1,076	40,067	11,199	4,691
Impairment	<u>(2,505)</u>	<u>(2,130)</u>	<u>(6,396)</u>	<u>(8,941)</u>
Subtotal	862,324	538,809	1,020,793	1,862,767
Bills receivable measured at fair value	<u>100</u>	<u>10,400</u>	<u>4,410</u>	<u>3,454</u>
Total	<u>862,424</u>	<u>549,209</u>	<u>1,025,203</u>	<u>1,866,221</u>

Our trade and bills receivables increased by 82.0% from RMB1,025.2 million as of December 31, 2021 to RMB1,866.2 million as of June 30, 2022, which was in line with the increase in revenue generated from our sale of self-produced nickel-cobalt compounds under our nickel product production business.

Our trade and bills receivables increased significantly from RMB549.2 million as of December 31, 2020 to RMB1,025.2 million as of December 31, 2021, which was in line with the increase in revenue generated from our nickel product trading and nickel product production businesses.

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Our trade and bills receivables decreased by 36.3% from RMB862.4 million as of December 31, 2019 to RMB549.2 million as of December 31, 2020, which was in line with the decrease in revenue generated from our nickel products trading business.

The following table sets forth our trade and bills receivables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Trade and bills receivables turnover days ⁽¹⁾	<u>29.6</u>	<u>33.3</u>	<u>23.0</u>	<u>26.2</u>

Note:

(1) Trade and bills receivables turnover days are equal to the average balance of trade and bills receivables at the beginning and the end of the Track Record Period divided by revenue for such period and multiplied by 365 days for the years ended December 31, 2019, 2020 and 2021 and 180 days for the six months ended June 30, 2022.

Our trade and bills receivables are typically settled in one to three months. Our trade and bills receivables turnover days were within the credit period at 29.6 days, 33.3 days, 23.0 days and 26.2 days in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. Our trade and bills receivables turnover days decreased from 33.3 days in 2020 to 23.0 days in 2021 and 26.2 days in the six months ended June 30, 2022, primarily attributable to faster settlement with customers.

We seek to maintain strict control over our outstanding trade and bills receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimize credit risk.

The following table sets forth the aging analysis of our trade receivables, presented based on the invoice date and net of loss allowance, as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	859,137	493,695	1,005,516	1,857,246
3 to 6 months	121	1,672	187	373
6 to 12 months	1,924	3,370	3,891	390
1 to 2 years	<u>66</u>	<u>5</u>	<u>—</u>	<u>67</u>
Total	<u>861,248</u>	<u>498,742</u>	<u>1,009,594</u>	<u>1,858,076</u>

As of September 30, 2022, RMB1,774.0 million, or 95.0% of our trade receivables outstanding as of June 30, 2022, has been settled.

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Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets include prepayments, other receivables, other current assets and impairment allowance. Prepayments are primarily related to our procurement of nickel ore and leasing of vessel for the shipment of nickel products. Other receivables primarily include deposits we made in connection with our business operations, export tax rebates and capitalized listing expenses. Other current assets are primarily related to the undeducted input value added tax of HPL. Impairment allowance primarily related to the disposal of Xiangxiang Enterprise.

The following table sets forth our prepayments, other receivables, and other assets as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	437,440	346,408	275,772	271,299
Other receivables	118,295	92,314	145,885	255,368
Other current assets	—	1,547	107,529	98,950
Subtotal	555,735	440,269	529,186	625,617
Impairment allowance	(1,477)	(680)	(585)	(731)
Total	<u>554,258</u>	<u>439,589</u>	<u>528,601</u>	<u>624,886</u>

Our prepayments, other receivables and other assets increased by 18.2% from RMB528.6 million as of December 31, 2021 to RMB624.9 million as of June 30, 2022, primarily due to an increase in other receivables, as we made deposits in connection with our ferronickel business and an increase in export tax rebates, partially offset by decreases in (i) prepayments made in connection with our procurement activities and (ii) other current assets, primarily due to return of input value added tax to HPL by government authorities.

Our prepayments, other receivables and other assets increased by 20.2% from RMB439.6 million as of December 31, 2020 to RMB528.6 million as of December 31, 2021, primarily due to an increase in other receivables related to export tax return and an increase in other current assets related to undeducted input value added tax of HPL, partially offset by a decrease in prepayments made in connection with our procurement activities.

As of September 30, 2022, RMB339.0 million, or 54.3% of our prepayments, other receivables and other assets as of June 30, 2022 had been settled.

Cash and Cash Equivalents

During the Track Record Period, we had cash and cash equivalents of RMB188.4 million, RMB256.9 million, RMB1,413.3 million, and RMB2,959.4 million as of December 31, 2019, 2020,

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2021 and June 30, 2022, respectively. For an analysis of our cash flow during the Track Record Period, see “— Liquidity and Capital Resources”.

Trade and Bills Payables

Our trade and bills payables primarily represent outstanding trade and bills payables to our suppliers in relation to the procurement of nickel products and equipment and machinery. The following table sets forth our trade and bills payables as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Trade payables	589,273	533,223	725,434	1,002,407
Bills payable	5,000	99,100	2,980	2,656
Total	<u>594,273</u>	<u>632,323</u>	<u>728,414</u>	<u>1,005,063</u>

Our trade and bills payables increased by 38.0% from RMB728.4 million as of December 31, 2021 to RMB1,005.1 million as of June 30, 2022, primarily due to our increased procurement of nickel ore, which was line with our business growth.

Our trade and bills payables increased by 15.2% from RMB632.3 million as of December 31, 2020 to RMB728.4 million as of December 31, 2021, primarily due to the acquisition of HPL.

Our trade and bills payables increased by 6.4% from RMB594.3 million as of December 31, 2019 to RMB632.3 million as of December 31, 2020.

The following table sets forth our trade and bills payables turnover days for the periods indicated.

	Year ended			Six months
	December 31,			ended June 30,
	2019	2020	2021	2022
Trade and bills payables turnover days ⁽¹⁾	<u>22.8</u>	<u>32.9</u>	<u>22.7</u>	<u>22.6</u>

Note:

- (1) Trade and bills payables turnover days are equal to the average balance of trade and bills payables at the beginning and the end of the Track Record Period divided by cost of sales for such period and multiplied by 365 days for the years ended December 31, 2019, 2020 and 2021 and 180 days for the six months ended June 30, 2022.

Our trade and bills payables are normally settled within 90 days. Our trade and bills payables turnover days were within the credit period and increased from 22.8 days in 2019 to 32.9 days in

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2020, decreased to 22.7 days in 2021 and 22.6 days in the six months ended June 30, 2022, primarily in line with the fluctuation in cost of sales for our trading and production businesses.

The following table sets forth the aging analysis of the trade payables as of the dates indicated, based on the invoice date.

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
Within 3 months	521,531	374,701	564,315	645,791
3 to 6 months	7,080	38,000	24,130	102,209
6 to 12 months	6,676	41,745	13,798	139,032
1 to 2 years	1,599	72,654	77,687	50,639
Over 2 years	52,387	6,123	45,504	64,736
Total	<u>589,273</u>	<u>533,223</u>	<u>725,434</u>	<u>1,002,407</u>

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not default in payment of any trade and non-trade payables.

As of September 30, 2022, RMB609.2 million, or 60.8% of trade payables as of June 30, 2022 has been settled. Certain of our trade payables for the procurement of production equipment have relatively longer settlement cycle, depending on the acceptance procedures of the respective equipment.

Other Payables and Accruals

Other payables and accruals primarily include tax payable other than corporate income tax and accrued payroll and welfare for our staff.

The following table sets forth our other payables and accruals as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
Taxes payable other than corporate income tax	146,439	138,554	97,941	75,755
Accrued payroll	41,194	35,611	70,209	170,142
Other payables	8,626	9,340	637,687	728,986
Dividends payables to shareholders other than the ultimate holding company	1,227	—	—	—
Advance form customer	6,481	10,120	6,954	2,500
Provision	—	—	23,456	24,691
Total	<u>203,967</u>	<u>193,625</u>	<u>836,247</u>	<u>1,002,074</u>

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Our other payables and accruals increased by 19.8% from RMB836.2 million as of December 31, 2021 to RMB1,002.1 million as of June 30, 2022, primarily due to an increase in accrued payroll as a result of increased headcount.

Our other payables and accruals increased significantly from RMB193.6 million as of December 31, 2020 to RMB836.2 million as of December 31, 2021, primarily due to increase in payables related to (i) procurement and installation of equipment for the HPAL project (primarily including mineral washing and selection, smelting, sulfuric acid production, drainage and power generation related equipment), and (ii) payables related to the construction of the HPAL project (primarily including payables related to the construction of the HPAL project's production facilities, ports and power plants), as a result of our acquisition of HPL.

Our other payables and accruals decreased by 5.1% from RMB204.0 million as of December 31, 2019 to RMB193.6 million as of December 31, 2020, primarily due to a decrease in accrued payroll as a result of our disposal of Xiangxiang Enterprise in 2020.

Contract Liabilities

Our contract liabilities include short-term advances received from customers. The table below sets forth our contract liabilities as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities	<u>240,936</u>	<u>318,435</u>	<u>296,921</u>	<u>152,152</u>

Our contract liabilities decreased by 48.8% from RMB296.9 million as of December 31, 2021 to RMB152.2 million as of June 30, 2022, primarily due to a decrease in advances received from our equipment customers.

Our contract liabilities decreased by 6.8% from RMB318.4 million as of December 31, 2020 to RMB296.9 million as of December 31, 2021, primarily due to a decrease in advances received from our equipment customers. Our contract liabilities increased by 32.2% from RMB240.9 million as of December 31, 2019 to RMB318.4 million as of December 31, 2020, primarily due to increased advance received from our equipment customers.

As of September 30, 2022, RMB145.7 million, or 95.8% of our contract liabilities as of June 30, 2022 had been recognized as revenue.

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Intangible Assets

Our intangible assets are comprised of (i) customer relationship, which represents our long-term offtake agreements with customers for our nickel-cobalt compound products, and (ii) software. A breakdown of our intangible assets as at the dates indicated is set out below:

	As of December 31,			As of
	2019	2020	2021	June 30, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer relationship	—	—	523,303	513,720
Software	179	2,474	4,221	5,312
Total	179	2,474	527,524	519,032

Our intangible assets increased significantly from RMB0.2 million as of December 31, 2019 to RMB2.5 million as of December 31, 2020, primarily because we purchased more software to facilitate our business growth. Our intangible assets increased significantly from RMB2.5 million as of December 31, 2020 to RMB527.5 million as of December 31, 2021, primarily due to our acquisition of HPL. Our intangible assets remained relatively stable at RMB519.0 million as of June 30, 2022.

Goodwill

We did not record any goodwill in 2019 or 2020. We recorded goodwill of RMB218.0 million and RMB218.0 million as of December 31, 2021 and June 30, 2022, respectively, which was related to our acquisition of HPL in November 2021.

Goodwill acquired through business combination is allocated to the HPL cash-generating unit mainly engaged in smelting and production for impairment testing.

The recoverable amount of HPL cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by our senior management. The budgeted gross margins applied to the cash flow projections, the terminal growth rate and pre-tax discount rate used to extrapolate the cash flows of the HPL cash-generating units beyond the five-year period are as follows:

	As at December 31, 2021
	%
Budgeted gross margin	37-40
Terminal growth rate	—
Pre-tax discount rate	<u>20.4</u>

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The calculation of value in use is based on the following assumptions:

Budgeted gross margin — The basis used to determine the value assigned to the budgeted gross margins is the gross margins achieved in the year immediately before the budget year, changed for expected market development.

Pre-tax discount rate — the rate reflect management's estimate of the risks specific to the unit.

Terminal growth rate — the rate is based on the historical data in the same industry and management's expectation of the future market.

The values assigned to the key assumptions on budgeted gross margin, pre-tax discount rate and terminal growth rate are consistent with management's past experience and external information sources.

As at December 31, 2021, the recoverable amount of the HPL cash-generating unit to which goodwill is allocated exceeded its carrying amount by RMB746,986,000.

If the pre-tax discount rate rose to 22.3%, or the gross margin decreased to the range between 34% to 37%, the recoverable amount of the cash-generating unit would be decreased to the carrying amount of the cash-generating unit. With regard to the assessment of the value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the cash-generating unit to exceed the recoverable amount. Our management determined that no impairment of goodwill should be recognized for the HPL cash-generating as of December 31, 2021.

HKAS 36 requires an entity to perform impairment tests on goodwill on an annual basis. Meanwhile, our management did not identify any significant adverse changes in the operating results and macro environment as of June 30, 2022, and our management has concluded there was no impairment indicator of goodwill at June 30, 2022. Accordingly, our management did not perform impairment testing on goodwill as of June 30, 2022.

Interests in Associates

Our interests in associates represent our share of net assets in our associates companies, primarily including HPL (before it became our subsidiary on November 30, 2021) and HJF. Our interests in associates increased from RMB670.4 million as of December 31, 2019 to RMB1,015.7 million as of December 31, 2020, primarily due to capital injection in HPL and HJF. Our interests in associates decreased from RMB1,015.7 million as of December 31, 2020 to RMB581.9 million as of December 31, 2021, primarily because HPL became one of our subsidiary (and therefore is no longer one of our associate companies) through our acquisition of an additional 18.0% equity interest in HPL in November 2021. Our interests in associates decreased from RMB581.9 million as of December 31, 2021 to RMB556.6 million as of June 30, 2022, primarily because both HPL and CBL are still under construction and have not started to generate revenues.

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The following table sets forth a breakdown of our share of net assets in our associates companies, as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
HJF	129,430	370,136	557,790	535,996
HPL ⁽¹⁾	540,924	615,561	—	—
CBL	—	30,003	24,088	20,567
Share of net assets	<u>670,354</u>	<u>1,015,700</u>	<u>581,878</u>	<u>556,563</u>

Note:

- (1) Prior to November 29, 2021, we held 36.9% equity interest in HPL, the project company of phases I and II of the HPAL project, and purchased nickel-cobalt compound products from HPL. We acquired an additional 18.0% equity interest in HPL on November 29, 2021 and has since November 30, 2021 treated HPL as one of our subsidiaries, consolidating its financial results into our consolidated financial statements.

Prepayments for Property, Plant and Equipment

Our prepayment for property, plant and equipment decreased from RMB19.9 million as of December 31, 2019 to RMB2.6 million as of December 31, 2020, primarily because we made more prepayments in 2019 for the construction of environment protection facilities for our Jiangsu Facilities. Our prepayment for property, plant and equipment increased from RMB2.6 million as of December 31, 2020 to RMB351.6 million as of December 31, 2021, primarily due to increased prepayments for property, plant and equipment as a result of our acquisition of HPL in November 2021.

Our prepayment for property, plant and equipment increased from RMB351.6 million as of December 31, 2021 to RMB673.3 million as of June 30, 2022, primarily as a result of an increase in our fixed assets, as the construction of the HPAL project continued.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss are primarily comprised of wealth management products issued by commercial banks and financial institutions in China, futures products and interest rate swaps. Our financial assets at fair value through profit or loss decreased from RMB187.1 million as of December 31, 2019 to RMB152.4 million as of December 31, 2020, which was in line with a decrease in bank deposits used to purchase such wealth management products. Our financial assets at fair value through profit or loss decreased from RMB152.4 million as of December 31, 2020 to nil as of December 31, 2021, as we no longer held such wealth management products as of December 31, 2021. Our financial assets at fair value through profit or loss increased from nil as of December 31, 2021 to RMB120.5 million as of June 30, 2022, primarily in relation to our wealth management and interest rate swaps.

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We have in place detailed investment policies and internal control procedures in respect of our investments in wealth management products and futures products, and have dedicated investment teams in charge of such investments, under the supervision of our Board.

Investment Risk Management

Specifically, we have adopted an investment management policy regarding the supervision and approval process for our investments in futures products and wealth management products, as further described below.

Futures Products

During the Track Record Period, we traded futures contracts to mitigate the inherent price risks from price fluctuations of a small portion of ferronickel for our trading business. We did not purchase futures products for speculation during the Track Record Period and speculative trading will continue to be prohibited in the future.

We have adopted detailed futures product management procedures to control our risk exposure to the trading of futures products and established our futures product investment team to monitor and execute our futures products trading. Our investment team regularly conducts market research to guide our trading of futures products. This team is primarily responsible for (i) closely monitoring the performance of our futures products and executing trading strategies, (ii) preparing industry research framework and organizing data on a daily, weekly, and monthly basis, (iii) tracking the supply and demand situation of the industry, and (iv) acquiring additional market information by communicating with other industry participants and attending industry conferences to predict price movements and advise on trading strategies accordingly. The team is supervised by our Board when making investment decisions. As specified in our internal policy, any investment proposal in futures products that require a futures margin (i.e. the amount of money that must be deposited with the futures contract broker when a futures position is opened; the amount of futures margin is typically 10% of the futures position opened) of more than RMB10 million must be reported to our Board, which will then review the feasibility analysis report, investment proposal and other relevant documents for the proposed transaction for approval. For an investment proposal in futures products that requires a futures margin of less than RMB10 million, it needs to be approved by the head of our futures product investment team. In addition, even if the above threshold is not met, if any member of our investment team or the Board considers that a potential investment in the futures products is likely to subject us to substantial risks, he or she may require the Board to review the relevant proposal for approval.

To limit the risks from our futures position, we have also clearly stipulated the position limits for the trading of nickel futures, which in aggregate shall not exceed 3,000 metal tons in position in any time. In addition, we require that the total maximum value of the relevant futures contracts should not exceed 10% of our net assets as of the end of the last fiscal year. Separately, we also have two futures margin accounts with the relevant futures contract brokers, with RMB40 million and

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US\$3 million in amount, respectively, which in practice function as an upper limit for the futures positions we are allowed to take at any time. The upper limit for total loss and floating loss are set at 5% of our net assets as of the end of the last fiscal year.

We have further adopted specific post-investment controls to monitor the value and trading risk of futures products. Our futures product investment team is required to monitor the values of the futures position, the floating gain/loss and other relevant data on a daily basis. If the loss in the total value of the futures position exceeds the limit set by us before the futures position is opened, our investment team is required to immediately report to the leader of our futures product investment team, who is allowed to close the position if necessary. In addition, our risk management department is also responsible for the risk management related to futures products including (i) monitoring the actual and floating gain/loss of the positions opened; (ii) reporting to the Board in case of any excess positions and/or abnormality in price; and (iii) regularly obtaining updates in relation to business development and the credit standing of the futures contracts brokers and reporting the same to the Board.

The head of our futures product investment team has over ten years of experiences in the nickel product market. He has been primarily involved in nickel product related businesses since 2012 and has accumulated deep understanding and first-hand experience in nickel product trading and the futures market. From 2012 to 2014, he was primarily involved in our nickel ore and ferronickel trading businesses, gaining valuable insights in the market dynamics of nickel products in general and the interaction between nickel products and the nickel futures market. He has led our futures product investment team since 2015.

The research department under our futures product investment team regularly reports and updates the research results on nickel futures to the head of futures product investment team, assisting him in making decisions and judgment in futures products transactions. The research department under our futures product investment team is co-led by two of our research directors, both of whom had extensive experience in trading of nickel products and research of futures products. One of these research directors holds a bachelor's degree in economics from Anhui University of Finance and Economics. From 2009 to 2021, he has conducted extensive market analysis and research work on a variety of metal products, including stainless steel, nickel, cobalt, indium and lithium carbonate, and compiled market analysis reports and designed futures trading and arbitrage solutions for his then supervisors and clients. Since joining us in June 2021, he has primarily been focused on the research and analysis of metal futures. The other research director holds a bachelor's degree in information and computer science from Zhejiang University of Technology. From 2006 to 2014, she was mainly involved in commodity trading, procurement of nickel products, as well as financing activities and settlement of relevant products. Since 2015, she has primarily been focused on the study and research of industry value chain of nickel and stainless steel, and has written over ten research reports on the industry analysis and prediction of market trend of nickel products. Since joining us in November 2021, she has primarily been focused on the research and analysis of metal futures.

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Wealth Management Products

We only purchase wealth management products offered by licensed financial institutions that are considered low-risk and offer higher rates of return as compared with time deposits. Our investment team is in charge of overseeing the purchase and management of wealth management products. The team is led by our financial controller, Mr. Wang Ling, who is responsible for investments in wealth management products, and also includes (i) members from our executive management team (including relevant officers from business operation, finance, business administration, human resources, risk management and legal departments) and (ii) market research analysts and trade execution personnel with deep industry knowledge and investment experience. Mr. Wang has a bachelor of economics degree in accounting and master's degree in accounting, and has more than 17 years of experience in financial accounting and management. See “Directors, Supervisors and Senior Management — Senior Management” for more information regarding the experience and qualification of Mr. Wang.

To monitor and control the investment risks associated with our wealth management product portfolio, we have adopted a comprehensive set of internal policies and guidelines to manage our investment in wealth management products. Our investment strategy related to the wealth management products aims to minimize the financial risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs, and to generate investment returns for the benefits of our shareholders. Before proceeding with any investment proposal, our investment team assesses our cash flow levels, operational needs and capital expenditures. We make our investment decisions related to wealth management products on a case-by-case basis after thoroughly considering a number of factors, including the macroeconomic environment, general market conditions, our past experience with the financial institutions providing the wealth management products, the underlying assets of the wealth management products, the expected profit or potential loss of such investment, and other material terms of the wealth management products. Our investment team will propose, analyze and evaluate potential investment in wealth management products based on the above factors. The resultant report will be reviewed and approved by Mr. Wang. In addition, any potential investment in wealth management products would require the Board's prior approval if (i) the aggregate amount of the prospective investment is expected to account for more than 10% of our total asset for the most recently completed fiscal year, or (ii) the aggregate amount of the prospective investment is more than RMB10 million and is expected to account for more than 10% of our net asset for the most recently completed fiscal year. In order to optimize returns and mitigate risks of our investment, we closely monitor the performance of our wealth management products and have subsequent portfolio management and risk-warning mechanism in place.

See “Business — Risk Management — Investment Risk Management” for more details on our overall investment policies, strategies and control procedures, as well as those related to investments in wealth management products and futures products specifically. Our investments in wealth management and futures products will also comply with Chapter 14 of the Listing Rules after the Listing.

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LIQUIDITY AND CAPITAL RESOURCES

Historically, we funded our operations primarily with cash and cash equivalents on hand, cash generated from operations and bank borrowings. Our cash and cash equivalents primarily consist of cash on hand and bank balances. Going forward, we intend to finance our operations by cash generated from operating activities, bank borrowings and proceeds from the Global Offering.

Consolidated Statements of Cash Flows

The following table sets forth a summary of our consolidated statements of cash flows for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Operating cash flows before movements in					
working capital	1,061,385	790,873	1,254,691	283,252	2,948,485
Changes in working capital	(1,299,421)	310,913	(227,492)	(628,193)	(1,142,670)
Income tax paid	(123,488)	(212,479)	(215,878)	(109,345)	(159,293)
Net cash (used in)/from operating					
activities	(361,524)	889,307	811,321	(454,286)	1,646,522
Net cash used in investing activities	(971,492)	(364,796)	(643,300)	(379,460)	(1,845,021)
Net cash from /(used in) financing					
activities	1,287,416	(453,180)	997,235	966,620	1,679,830
Net (decrease)/increase in cash and cash					
 equivalents	(45,600)	71,331	1,165,256	132,874	1,481,331
Cash and cash equivalents at beginning of					
year/period	233,687	188,399	256,903	256,903	1,413,298
Effect of foreign exchange rate changes,					
net	312	(2,827)	(8,861)	(1,199)	64,762
Cash and cash equivalents at the end of					
 year/period	188,399	256,903	1,413,298	388,578	2,959,391

Net Cash From/(Used in) Operating Activities

In the six months ended June 30, 2022, net cash from operating activities was RMB1,646.5 million, which primarily consist of profit before tax of RMB2,392.5 million, adjusted for certain non-cash and non-operating items and income tax paid of RMB159.3 million. Adjustment for certain non-cash and non-operating items primarily include: (i) depreciation of property, plant and equipment of RMB181.4 million, (ii) net foreign exchange differences of RMB123.3 million, and (iii) finance costs of RMB108.5 million, partially offset by changes in fair value of financial assets

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and liabilities at fair value through profit or loss of RMB44.4 million. The amount was further adjusted by changes in working capital, including (i) an increase in trade and bills payables of RMB276.6 million, and (ii) an increase in amount due to related parties of RMB248.3 million, partially offset by an increase in trade and bills receivables of RMB1,208.5 million.

In 2021, net cash from operating activities was RMB811.3 million, which primarily consist of profit before tax of RMB1,439.1 million, adjusted for certain non-cash and non-operating items and income tax paid of RMB215.9 million. Adjustment for certain non-cash and non-operating items primarily include: (i) finance costs of RMB79.3 million, and (ii) depreciation of property, plant and equipment of RMB74.8 million, partially offset by gains on step acquisitions of subsidiaries of RMB282.6 million. The amount was further adjusted by changes in working capital, including (i) a decrease in prepayments, other receivables and other assets of RMB117.9 million, and (ii) a decrease in an amount due from related parties of RMB195.4 million, partially offset by an increase in trade and bills receivables of RMB676.3 million.

In 2020, net cash from operating activities was RMB889.3 million, which primarily consist of profit before tax of RMB700.4 million, adjusted for certain non-cash and non-operating items and income tax paid of RMB212.5 million. Adjustment for certain non-cash and non-operating items primarily include (i) depreciation of property, plant and equipment of RMB50.2 million, (ii) share of profits or losses of associates of RMB68.1 million and (iii) finance costs of RMB42.2 million. The amount was further adjusted by changes in working capital, include (i) increase in trade and bills payables of RMB177.7 million, (ii) decrease in inventories of RMB235.9 million, and (iii) increase in an amount due from related parties of RMB406.4 million, primarily related to our supply of machinery and equipment to HPL.

In 2019, net cash used in operating activities was RMB361.5 million, which primarily consist of profit before tax of RMB785.1 million, adjusted for certain non-cash and non-operating items and income tax paid of RMB123.5 million. Adjustment for certain non-cash and non-operating items primarily include (i) depreciation of property, plant and equipment of RMB211.3 million, primarily related to our Jiangsu Facilities, and (ii) finance costs of RMB66.6 million. The amount was further adjusted by changes in working capital, include (i) increase in inventories of RMB210.0 million, (ii) increased in pledged deposit of RMB213.8 million related to the issuance of letter of credit, (iii) increase in trade and bill receivables of RMB808.3 million, and (iv) increase in prepayments, other receivables and other assets of RMB226.0 million.

Net Cash Used in Investing Activities

In the six months ended June 30, 2022, net cash used in investing activities was RMB1,845.0 million, which primarily consist of (i) purchase of items of property, plant and equipment of RMB1,679.3 million, (ii) purchases of financial assets at fair value through profit or loss of RMB116.8 million, and (iii) deposits for purchases of derivatives of RMB81.0 million.

In 2021, net cash used in investing activities was RMB643.3 million, which primarily consist of (i) purchase of items of property, plant and equipment of RMB310.0 million, (ii) interests in

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associates of RMB351.7 million, and (iii) deposits for purchases of derivatives of RMB96.5 million, partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB184.0 million, related to our wealth management products and futures products. The above changes were primarily attributable to our acquisition of HPL.

In 2020, net cash used in investing activities was RMB364.8 million, which primarily consist of (i) purchases of financial assets at fair value through profit or loss of RMB135.5 million, related to our wealth management products and futures products, and (ii) purchases of a shareholding in associates of RMB612.6 million, related to our increase of registered capital of HJF and CBL, which was partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB170.1 million, related to our wealth management products and futures products.

In 2019, net cash used in investing activities was RMB971.5 million, which primarily consist of (i) purchase of financial assets with the fair value changes through profit or loss of RMB187.0 million, related to our wealth management products and futures products, and (ii) purchases of a shareholding in HPL of RMB438.9 million, which was partially offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB6.7 million, related to our wealth management products and futures products.

Net Cash From/(Used in) Financing Activities

In the six months ended June 30, 2022, net cash generated from financing activities was RMB1,679.8 million, which primarily consisted of (i) proceeds from bank borrowings of RMB3,742.7 million, and (ii) proceeds from other borrowings of RMB448.4 million, partially offset by repayment of bank borrowings of RMB2,306.8 million.

In 2021, net cash generated from financing activities was RMB997.2 million, which primarily consisted of (i) proceeds from bank borrowings of RMB6,137.1 million, and (ii) proceeds from issue of shares of RMB1,277.0 million, representing capital injection from our existing shareholders and new shareholders, partially offset by repayment of bank borrowings of RMB6,184.6 million.

In 2020, net cash used in financing activities was RMB453.2 million, which was primarily consist of repayment of bank borrowings of RMB5,049.5 million and dividend paid of RMB189.4 million, partially offset by proceeds from bank borrowings of RMB4,623.0 million.

In 2019, net cash generated from financing activities was RMB1,287.4 million, which primarily consist of proceeds from bank borrowings of RMB6,913.5 million, partially offset by repayment of bank borrowings of RMB6,175.0 million.

CAPITAL EXPENDITURES

Our capital expenditures amounted to RMB498.5 million, RMB686.8 million, RMB661.6 million, RMB363.7 million and RMB1,680.0 million in 2019, 2020, 2021 and the six months ended

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June 30, 2021 and 2022, respectively. Our capital expenditures were used for prepayment for property, plant and equipment, investments in associates, and investments in a joint venture. The following table sets forth our capital expenditures for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
							<i>(Unaudited)</i>			
Prepayments for property, plant and equipment . . .	59,636	12.0	74,226	10.8	309,951	46.8	12,031	3.3	1,679,303	100.0
Interests in associates	438,870	88.0	612,613	89.2	351,691	53.2	351,691	96.7	—	—
Interests in a joint venture	—	—	—	—	—	—	—	—	677	—
Total	<u>498,506</u>	<u>100.0</u>	<u>686,839</u>	<u>100.0</u>	<u>661,642</u>	<u>100.0</u>	<u>363,722</u>	<u>100.0</u>	<u>1,679,980</u>	<u>100.0</u>

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Capital Commitments

Our capital commitments during the Track Record Period were related to (i) our acquisition of property, plant and equipment, and (ii) capital contributions payable to joint ventures and associates. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the total amount of our capital commitments contracted for but not provided in the consolidated financial statements was RMB909.4 million, RMB237.4 million, RMB2,374.8 million and RMB4,296.9 million, respectively.

The following table sets forth a breakdown of our capital commitments as of the dates indicated.

	As of December 31,			As of
	2019	2020	2021	June 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	67,590	534	2,374,080	4,296,905
Capital contributions payable to joint ventures and associates	841,789	236,876	681	—
Total	<u>909,379</u>	<u>237,410</u>	<u>2,374,761</u>	<u>4,296,905</u>

INDEBTEDNESS

As of September 30, 2022, being the latest practicable date for the purpose of the indebtedness statement below, we had RMB2,679.5 million in indebtedness, which was comprised of interest-

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bearing bank and other borrowings and lease liabilities. As of September 30, 2022, we had unutilized banking facilities of approximately RMB1,255.3 million.

The table below sets forth our indebtedness as of the dates indicated.

	As of December 31,			As of	As of
	2019	2020	2021	June 30,	September 30,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(Unaudited)</i>
Current					
Interest-bearing bank and other					
borrowings	1,493,866	1,024,498	1,155,912	2,581,957	2,665,311
Lease liabilities	2,456	3,204	8,638	13,557	14,235
Total	<u>1,496,322</u>	<u>1,027,702</u>	<u>1,164,550</u>	<u>2,595,514</u>	<u>2,679,546</u>
Non-current					
Interest-bearing bank and other					
borrowings	—	—	3,595,682	3,902,122	4,059,175
Lease liabilities	2,636	1,960	2,229	52,685	49,430
Total	<u>2,636</u>	<u>1,960</u>	<u>3,597,911</u>	<u>3,954,807</u>	<u>4,108,605</u>

Interest-bearing Bank and Other Borrowings

Our interest-bearing bank and other borrowings mainly consist of import bill advance under letter of credit. As of December 31, 2019, 2020, 2021 and as of June 30 and September 30, 2022, we recognized interest-bearing bank and other borrowings of RMB1,493.9 million, RMB1,024.5 million, RMB4,751.6 million, RMB6,484.1 million and RMB6,724.5 million, respectively.

The following tables set forth the breakdown of our interest-bearing bank and other borrowings as of the dates indicated.

	As at December 31, 2019		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank borrowings — secured	2.24-5.66	2020	1,466,526
Other borrowing	5.66	2020	27,340
Total			<u>1,493,866</u>

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As at December 31, 2020			
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank borrowings — secured	1.30-4.35	2021	1,024,498

As at December 31, 2021			
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank borrowings — secured	1.7-4.40	2022	1,121,096
Other borrowing	5.61	2022	30,434
Current portion of long term bank borrowings — secured	LIBOR+3.75	2022	4,382
			1,155,912
Non-current			
Bank borrowings — secured	LIBOR+3.00- 3.75	2027	3,595,682
			4,751,594

As at June 30, 2022			
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank borrowings — secured	1.36-4.95	2022	2,294,492
Other borrowing	3.6-4.3	2022	207,870
Current portion of long term bank borrowings – secured	LIBOR+3.75	2022	79,595
			2,581,957
Non-current			
Bank borrowings – secured	LIBOR+3.00-3.75	2023-2027	3,902,122
			6,484,079

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As at September 30, 2022			
	Effective interest rate (%)	Maturity	RMB'000
<i>(Unaudited)</i>			
Current			
Bank borrowings — secured	1.7-4.95	2023	2,309,278
Other borrowing	3.90	2023	166,986
Current portion of long term bank borrowings — secured	4.45 and LIBOR+3.75 and LIBOR+3.00	2023	<u>189,047</u>
			<u>2,665,311</u>
Non-current			
Bank borrowings — secured	4.3-4.45 and LIBOR+3.75 and LIBOR+3.00	2034	<u>4,059,175</u>
			<u>6,724,486</u>

	As of December 31,			As of June 30,	As of September 30,
	2019	2020	2021	2022	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>(Unaudited)</i>					
Analyzed into:					
Bank loans repayable:					
Within one year or on demand	1,493,866	1,024,498	1,155,912	2,581,957	2,665,311
In the second year	—	—	144,757	516,490	645,497
In the third year	—	—	533,486	495,706	901,656
In the fourth year	—	—	752,741	777,267	1,020,426
In the fifth year	—	—	873,459	951,755	1,180,114
Beyond five years	—	—	<u>1,291,239</u>	<u>1,160,904</u>	<u>311,482</u>
Total	<u>1,493,866</u>	<u>1,024,498</u>	<u>4,751,594</u>	<u>6,484,079</u>	<u>6,724,486</u>

Certain of our borrowings are (i) secured by mortgages over our buildings and land, or (ii) guaranteed by our directors or other related parties. For details of our mortgages and guarantees, please see Note 27 to Appendix IA Accountants' Report of this prospectus. All guarantees provided by our directors and other related parties over our borrowings will be released upon completion of the Listing.

The agreements under our interest-bearing bank and other borrowings do not contain any material covenants that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors confirm that we did not have any default in payment of interest-bearing bank borrowings during the Track Record Period and up to the Latest Practicable Date.

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Lease Liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. As of December 31, 2019, 2020 and 2021, and as of June 30 and September 30, 2022, we recognized lease liabilities of RMB5.1 million, RMB5.2 million, RMB10.9 million, RMB66.2 million and RMB63.7 million, respectively.

Except for our indebtedness as disclosed above, we did not have any other capital issued and outstanding or to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, or other material contingent liabilities as of September 30, 2022, being the latest practicable date for our indebtedness statement.

Except for our indebtedness as disclosed above, since June 30, 2022 and up to the date of this prospectus, there has not been any material and adverse change in our indebtedness and contingent liabilities. Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise. Our Directors confirm that the Company does not have any external financing plans as of the Latest Practicable Date apart from the Global Offering.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

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KEY FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios as of the dates or for the periods indicated.

	Years ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
Profitability:					
Gross profit margin ⁽¹⁾	10.9%	12.3%	12.2%	8.6%	30.9%
Net profit margin ⁽²⁾	6.1%	6.7%	10.1%	2.2%	22.9%
Rates of return:					
Return on average assets ⁽³⁾	16.3%	12.5%	15.6%	N/M ⁽⁸⁾	N/M ⁽⁸⁾
Return on average equity ⁽⁴⁾	56.5%	40.8%	38.4%	N/M ⁽⁸⁾	N/M ⁽⁸⁾
Liquidity:					
Gearing ratio ⁽⁵⁾	1.3	0.7	0.9	N/A	0.8
Current ratio ⁽⁶⁾	0.9	0.9	1.3	N/A	1.4
Quick ratio ⁽⁷⁾	0.8	0.7	1.0	N/A	1.2

Notes:

- (1) Gross profit margin equals gross profit divided by total revenue during the year/period, multiplied by 100%.
- (2) Net profit margin equals net profit divided by total revenue during the year/period, multiplied by 100%.
- (3) Return on average assets ratio equals net profit divided by average assets during the year/period, multiplied by 100%.
- (4) Return on average equity ratio equals net profit divided by average equity during the year/period, multiplied by 100%.
- (5) Gearing ratio equals total interest-bearing bank borrowings divided by total equity.
- (6) Current ratio equals total current assets divided by total current liabilities.
- (7) Quick ratio equals total current assets less inventories divided by total current liabilities.
- (8) These ratios are not meaningful as numbers for the period are not comparable to the numbers for the year.

Return on average assets ratio. The return on average assets ratio decreased from 16.3% in 2019 and 12.5% in 2020, primarily due to an increase in average asset in 2020, as we increased interests in associates. The return on average asset ratio increased from 12.5% in 2020 to 15.6% in 2021, primarily because our acquisition of HPL, which produces nickel-cobalt compound products, increased the profitability of our nickel product production business.

Return on average equity ratio. The return on average equity ratio decreased from 56.5% in 2019 to 40.8% in 2020, primarily due to an increase in net asset. The return on average equity ratio remained relatively stable at 40.8% and 38.4% in 2020 and 2021, respectively.

Gearing ratio. The gearing ratio decreased from 1.3 as of December 31, 2019 to 0.7 as of December 31, 2020, primarily due to a decrease in interest-bearing bank and other borrowings. The gearing ratio increased from 0.7 as of December 31, 2020 to 0.9 as of December 31, 2021, primarily due to increase in bank borrowings in order to support the ongoing construction of the HPAL project. The gearing ratio remained relatively stable at 0.9 as of December 31, 2021 and 0.8 as of June 30, 2022.

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Current ratio. The current ratio remained relatively stable at 0.9 and 0.9 as of December 31, 2019 and 2020. The current ratio increased to 1.3 as of December 31, 2021, as a result of a significant increase in current assets due to our acquisition of HPL, as well as capital contribution from shareholders. The current ratio increased from 1.3 as of December 31, 2021 to 1.4 as of June 30, 2022, primarily due to an increase in cash and inventories.

Quick ratio. The quick ratio remained relatively stable at 0.8 and 0.7 as of December 31, 2019 and 2020, respectively. The quick ratio increased to 1.0 as of December 31, 2021, as a result of capital contribution from shareholders. The quick ratio increased from 1.0 as of December 31, 2021 to 1.2 as of June 30, 2022, as a result of increase in cash and cash equivalents.

PROPERTY VALUATION

The independent valuer, in valuing our industrial properties located in the Village of Kawasi, District of Obi, Sub District of South Halmahera, Province of North Maluku, Indonesia, has assigned no commercial value to the property due to the borrow-to-use land nature on which the buildings and structures erected on. For details, see “Appendix III — Property Valuation Report”.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit Risk

We are exposed to credit risk in relation to our cash and cash equivalents, an amount due from a director, trade and bills receivables and financial assets included in prepayments, other receivables and other assets. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets. See Note 37 to the Accountants’ Report in Appendix IA to this prospectus for an analysis of the credit quality and the maximum exposure to credit risk based on our credit policy.

Liquidity risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management of us to finance the operations and mitigate the effects of fluctuations in cash flows.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which we conduct business may affect our financial condition and results of operations. We seek to limit our exposure to foreign currency risk by minimizing its net foreign currency position.

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The following table demonstrates the sensitivity as at the end of each year/period during the Track Record Period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of our loss before tax (due to translation of monetary assets and liabilities) and our equity.

	<u>Increase/(decrease) in rate of foreign currency</u>	<u>Increase/(decrease) in profit before tax</u>	<u>Increase/(decrease) in equity</u>
	%	<i>RMB'000</i>	<i>RMB'000</i>
December 31, 2019			
If the RMB weakens against the US\$	5%	20,256	19,494
If the RMB strengthens against the US\$	5%	(20,256)	(19,494)
December 31, 2020			
If the RMB weakens against the US\$	5%	12,108	15,190
If the RMB strengthens against the US\$	-5%	(12,108)	(15,190)
December 31, 2021			
If the RMB weakens against the US\$	5%	16,346	17,446
If the RMB strengthens against the US\$	-5%	(16,346)	(17,446)
If the RMB weakens against the IDR	5%	(1,743)	(643)
If the RMB strengthens against the IDR	-5%	1,743	643
June 30, 2022			
If the RMB weakens against the US\$	5%	73,000	83,766
If the RMB strengthens against the US\$	-5%	(73,000)	(83,766)
If the RMB weakens against the IDR	5%	138	117
If the RMB strengthens against the IDR	-5%	(138)	(117)

Results of the analysis as presented in the above table represent the sensitivity as at the end of each of the Track Record Periods to a reasonably possible change in foreign currency exchange rates with our loss before tax (due to translation of monetary assets and liabilities) and equity, translated into RMB at the exchange rate ruling at the end of each reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by us which expose us to foreign currency risk as of December 31, 2019, 2020 and 2021 and June 30, 2022. The analysis excludes differences that would result from the translation of the financial statements of entities whose functional currency is not RMB. The analysis is performed on the same basis for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022.

RELATED PARTY TRANSACTIONS AND BALANCES

During the Track Record Period, we entered into transaction with certain of our related parties. These transactions were conducted on normal commercial terms in the ordinary course of our business, with pricing policies consistent with those transaction conducted with independent third parties. These transactions mainly included the sales of machinery and equipment used in the production of nickel products to HPL and HJF and the purchase of nickel products from HPL and

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Regent Sound Limited. It is the view of our Directors that each of the related party transactions set out in Note 38 to the Accountants' Report in Appendix IA to this prospectus were conducted in the ordinary course of business on an arm's length basis between the relevant parties and were entered into on normal commercial terms. Except for the balances with our Controlling Shareholders or their respective close associates representing interest payable and dividends payable by the Company, which have been subsequently repaid in 2022, the outstanding balances as of December 31, 2021 with related parties that are non-trade in nature will not be settled prior to the Listing. See Note 38 to the Accountants' Report in Appendix IA to this prospectus for more details on the outstanding balances with related parties. Given that as of the Latest Practicable Date, there were no outstanding loans due to or from our Controlling Shareholders or their respective close associates, we believe we are able to operate independently from the Controlling Shareholders and their respective close associates from a financial perspective.

During the Track Record Period, we entered into a number of related party transaction which were of non-trade nature. We extended (i) a loan of RMB50.5 million in 2019 and a loan of RMB1.7 million in 2020 to Mr. Cai Jianyong, our director and shareholder, (ii) a loan of RMB2.0 million in 2019 to Mr. Cai Jianwei, our director and shareholder, (iii) a loan of RMB27 thousand in 2019 and a loan of RMB600 thousand in 2020, to Mr. Ge Kaicai, our supervisor; and (iv) a loan of RMB132.9 million in 2019, and a loan of RMB149.6 million in 2020 to Lygend Investment, our ultimate controlling shareholder. We got a loan of RMB20 million from Lygend Investment in 2021. All of these loans have been fully paid by December 31, 2021. As of June 30, 2022, the balance due from related parties was RMB95.8 million (mainly comprised of the balance due from TBP of RMB95.5 million), which was of very insignificant amount, and will not be settled prior to the Listing, primarily because, in accordance with the project schedule, TBP is not required to inject capital contributions to OSS before the commencement of the construction of the stainless steel project in Indonesia. TBP is expected to start injecting capital contributions to OSS shortly after the commencement of the construction of the stainless steel project and will continue to make further capital injections based on the actual progress of the construction of this project. As of the same date, we recorded cash and cash equivalents of RMB2,959.4 million. As such, we believe that we have sufficient funds to support our business operations and keep our own internal control, accounting, funding, reporting and financial management system independent from our related parties.

We and our Indonesian Partner have guaranteed certain of the bank borrowings of HPL (which was our associate, and a related party, prior to November 30, 2021) in relation to the ongoing construction of Phases I and II of the HPAL project. HPL has become one of our subsidiaries since November 30, 2021 and is no longer our related party. We and our Indonesian Partner have guaranteed certain of the bank borrowings of HJF in relation to the ongoing construction of Phase I of the RKEF project. These guarantees provided by us and our Indonesian Partner are not expected to be released upon the completion of the Listing. See Note 38 to the Accountants' Report in Appendix IA to this prospectus for more details.

In addition, certain of our borrowings are guaranteed by our directors or other related parties. See “— Indebtedness — Interest-bearing Bank and Other Borrowings” and Note 27 to the

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Accountants' Report in Appendix IA to this prospectus for more details. Except for the guarantees provided by our Indonesian Partner over HPL's bank borrowings as discussed above, all guarantees provided by our directors and other related parties over our borrowings will be released upon completion of the Listing.

DIVIDENDS

Pursuant to relevant PRC laws and regulations applicable to us, we are required to set aside a certain amount of our accumulated after tax profits each year, if any, to fund statutory reserves. Dividends may be paid only out of distributable profits, which are our retained earnings as determined in accordance with PRC GAAP or IFRS, whichever is lower, less the above mentioned statutory reserves and any discretionary surplus reserves.

As confirmed by our PRC Legal Advisor, according to the PRC law, any future net profit that we make will have to be first applied to make up for our historically accumulated losses, after which we will be obliged to allocate 10% of our net profit to our statutory common reserve fund until such fund has reached more than 50% of our registered capital.

As of the Latest Practicable Date, we have not adopted any formal dividend policy, nor have we set any dividend payout ratio after the Global Offering. The Board may consider, among other things, the following factors when proposing dividends and determining the amount of dividends: (i) our actual and projected financial performance; (ii) our estimated working capital requirements, capital expenditure requirements and future business expansion plan; (iii) our present and future cash flow; (iv) other internal and external factors that may have an impact on our business operations or financial performance and position; and (v) other factors that our Board of Directors deem relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, including (where required) the approval of Shareholders. The declaration and payment of dividends may also be limited by legal restrictions and by loan or other agreements that our Company and our subsidiaries have entered into or may enter into in the future. We cannot assure you that we will be able to distribute dividends of the above amount or any amount, or at all, in any year.

We declared dividends of RMB300.0 million, RMB190.0 million and RMB845.8 million in 2019, 2020 and 2021, respectively, all of which have been fully paid as of June 30, 2022. Subsequent to December 31, 2021 and as of the Latest Practicable Date, we have not declared any additional dividends.

DISTRIBUTABLE RESERVES

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our reserves available for distribution to our equity holders, or our retained earnings, amounted to RMB636.2 million, RMB882.0 million, RMB1,820.6 million and RMB3,358.5 million, respectively.

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LISTING EXPENSE INCURRED AND TO BE INCURRED

Listing expenses represent professional fees, underwriting commission and fees incurred in connection with the Listing and the Global Offering. Based on the mid-point of the indicative Offer Price range for the Global Offering and assuming the Over-allotment Option is not exercised, our listing expenses are estimated to be approximately RMB153.8 million (HK\$170.1 million), accounting for approximately 4.1% of the gross proceeds from the Global Offering. This includes (i) underwriting-related expenses, including underwriting commission and other expenses, of approximately RMB93.5 million (HK\$103.4 million), and (ii) non-underwriting-related expenses of approximately RMB60.3 million (HK\$66.7 million), comprising (a) fees and expenses of our legal advisors and reporting accountants of approximately RMB38.7 million (HK\$42.7 million), and (b) other fees and expenses of approximately RMB21.7 million (HK\$24.0 million).

During the Track Record Period, we incurred RMB33.9 million of listing expenses, of which RMB2.6 million was charged to our consolidated statements of profit or loss and RMB31.3 million will be deducted from equity. We expect to incur additional expenses of approximately RMB177.6 million after June 30, 2022, of which RMB8.8 million is expected to be charged to our consolidated statements of profit or loss and RMB168.8 million is directly attributable to the issue of the shares and is to be accounted for as a deduction from equity in accordance with the relevant accounting standard.

The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such listing expenses to have a material adverse impact on our results of operation.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to owners of the parent as if the Global Offering had taken place on June 30, 2022.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the attributable to owners of the parent had the Global Offering been completed as of June 30, 2022 or at any future date.

It is prepared based on our consolidated net assets as of June 30, 2022 as set out in our accountants' report, the text of which is set out in Appendix IA, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report.

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Consolidated net tangible assets attributable to equity shareholders of the Company as of June 30, 2022.

	Consolidated net tangible assets of the Group attributable to owners of the parent as at June 30, 2022	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets to attributable to owners of the parent as at June 30, 2022	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share as at June 30, 2022	
	<i>RMB '000</i> <i>Note 1</i>	<i>RMB '000</i> <i>Note 2</i>	<i>RMB '000</i>	<i>RMB</i> <i>Note 3</i>	<i>HK\$</i> <i>Note 4</i>
Based on an Offer					
Price of HK\$15.60 per Share	3,939,211	3,141,561	7,080,772	4.57	5.05
Based on an Offer					
Price of HK\$19.96 per Share	3,939,211	4,035,640	7,974,851	5.14	5.68

Notes:

- (1) The consolidated net tangible assets of the Group attributable to owners of the parent as at June 30, 2022 was equal to the consolidated net assets attributable to owners of the parent as at June 30, 2022 of RMB4,676,280,000 after deducting intangible assets of RMB519,032,000 and goodwill of RMB218,037,000 as at June 30, 2022, as shown in the Accountants' Report set out in Appendix IA to this prospectus.
- (2) The estimated net proceeds from the Global Offering are calculated based on estimated offer prices of HK\$15.60 per Share or HK\$19.96 per Share, being the low-end price and high-end price, after deduction of the underwriting fees and other related expenses payable by the Company (excluding listing expenses of RMB2,602,000 which have been charged to profit or loss during the Track Record Period) and do not take into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share are calculated based on 1,550,316,350 Shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent per Share are converted into Hong Kong dollars at an exchange rate of RMB0.9045 to HK\$1.00.
- (5) No adjustment has been made to reflect any trading results or open transactions of the Group entered into subsequent to June 30, 2022.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2022 (the date of the latest

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financial statements of the Company), and there is no event since June 30, 2022 which would materially affect the information shown in the Accountants' Report in Appendix IA to this prospectus.

FINANCIAL INFORMATION OF HPL

We initially held a 36.9% equity interest in HPL, the operating company of Phases I and II of the HPAL project. We acquired an additional 18.0% of equity interest in HPL on November 29, 2021, and have since November 30, 2021 consolidated HPL's financials into our consolidated financial statements. See "History, Development and Corporate Structure — Strategic Acquisitions" and "Business — Production of Nickel Products — Nickel-cobalt compound production" for more details.

Set out below is certain financial information of HPL.

Description of Major Components of the Results of Operations of HPL

The following table sets out a summary of the consolidated statements of comprehensive income/(loss) of HPL and its subsidiaries with line items in absolute amounts and as percentages of its revenue for the periods indicated.

	Year ended December 31,		Eleven Months ended November 30,	
	2019	2020	2020	2021
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	—	—	—	187,816
Cost of sales	—	—	—	(78,529)
Gross profit	—	—	—	109,287
Other income and gains	184	2,918	4,347	246
Selling and distribution expenses	—	—	—	(55)
Administrative expenses	(7,580)	(18,129)	(16,131)	(33,922)
Other operating expenses	(723)	—	—	(2,687)
Finance costs	—	—	—	(10,076)
Profit/(loss) before taxation	(8,119)	(15,211)	(11,784)	62,793
Income tax credit	39	34	34	219
Profit/(loss) for the year/period	<u>(8,080)</u>	<u>(15,177)</u>	<u>(11,750)</u>	<u>63,012</u>

Revenue

Phase I of the HPAL project commenced the production and sale of nickel-cobalt compounds in May 2021 and June 2021, respectively. As such, HPL did not generate any revenue prior to June 2021.

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Cost of Sales

HPL's cost of sales consists of (i) raw material and main material costs, which represent raw materials and other materials used in the production of nickel-cobalt compounds, (ii) depreciation of fixed assets, (iii) staff costs, which represent salaries and benefits for staff engaged in the production of nickel-cobalt compounds, (iv) miscellaneous expenses, and (v) fuel and power costs. The following table sets out a breakdown of the major components of HPL's cost of sales in absolute amounts and as percentages of total cost of goods sold for the periods indicated:

	Year ended December 31,				Eleven Months ended November 30,			
	2019		2020		2020		2021	
	US\$'000	(%)	US\$'000	(%)	US\$'000	(%)	US\$'000	(%)
Raw material and main material costs	—	—	—	—	—	—	51,076	65.0
Depreciation of fixed assets	—	—	—	—	—	—	13,381	17.0
Staff costs	—	—	—	—	—	—	7,091	9.0
Miscellaneous expenses	—	—	—	—	—	—	3,493	4.4
Fuel and power costs	—	—	—	—	—	—	3,488	4.4
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>78,529</u>	<u>100.0</u>

Gross Profit

The following table sets out the gross profit and margin of HPL for the periods indicated:

	Year ended December 31,		Eleven Months ended November 30,	
	2019	2020	2020	2021
	Gross profit (US\$' 000)	—	—	—
Gross margin (%)	<u>—</u>	<u>—</u>	<u>—</u>	<u>58.2%</u>

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Other Income and Gains

Other income and gains of HPL consist of (i) bank interest income on bank deposits, and (ii) net foreign exchange gains, primarily attribute to the fluctuations of U.S. dollars, Indonesian rupiahs, RMB, Euros, and Great Britain Pound. The following table sets out a breakdown of the major components of HPL's other income and gains in absolute amounts and as percentages of total other income and gains for the periods indicated:

	Year ended December 31,				Eleven Months ended November 30,			
	2019		2020		2020		2021	
	US\$'000	(%)	US\$'000	(%)	US\$'000	(%)	US\$'000	(%)
Bank interest income	184	100.0	579	19.8	550	12.7	246	100.0
Net foreign exchange gains	—	—	2,339	80.2	3,797	87.3	—	—
Total	184	100.0	2,918	100.0	4,347	100.0	246	100.0

Selling and Distribution Expenses

Selling and distribution expenses of HPL consist of (i) handling fees related to the transportation and processing of the goods, (ii) professional fees in connection with the inspection of nickel-cobalt compounds, (iii) staff costs, which represent salaries and benefits for HPL's sales and marketing personnel, and (iv) others, including freight charges and fees related to the export of nickel-cobalt compounds products. The following table sets out a breakdown of the major components of HPL's selling and distribution expenses in absolute amounts and as percentages of total selling and distribution expenses for the periods indicated:

	Year ended December 31,				Eleven Months ended November 30,			
	2019		2020		2020		2021	
	US\$'000	(%)	US\$'000	(%)	US\$'000	(%)	US\$'000	(%)
Handling fees	—	—	—	—	—	—	27	49.1
Professional fees	—	—	—	—	—	—	14	25.5
Staff Costs	—	—	—	—	—	—	9	16.4
Others	—	—	—	—	—	—	5	9.1
Total	—	—	—	—	—	—	55	100.0

Administrative Expenses

Administrative expenses of HPL consist of (i) staff costs, which represent salaries and benefits for HPL's administrative personnel, (ii) living and accommodation expenses for HPL's staff, (iii) depreciation of fixed assets, (iv) travel and entertainment expenses, (v) rental expenses, and (vi) others, primarily include utility bills, professional fees and insurance fees. The following table

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sets out a breakdown of the major components of the administrative expenses of HPL in absolute amounts and as percentages of total administrative expenses for the periods indicated:

	Year ended December 31,				Eleven Months ended November 30,			
	2019		2020		2020		2021	
	<i>US\$ '000</i>	(%)	<i>US\$ '000</i>	(%)	<i>US\$ '000</i>	(%)	<i>US\$ '000</i>	(%)
Staff costs	1,261	16.6	4,149	22.9	3,775	23.4	10,485	30.9
Living and accommodation expenses	3,250	42.9	6,077	33.5	5,492	34.0	10,954	32.3
Depreciation of fixed assets	222	2.9	462	2.5	408	2.5	3,130	9.2
Travel and entertainment expenses	1,850	24.4	3,852	21.2	3,545	22.0	6,063	17.9
Rental expenses-short term lease ...	497	6.6	808	4.5	719	4.5	514	1.5
Others	500	6.6	2,781	15.3	2,192	13.6	2,776	8.2
Total	<u>7,580</u>	<u>100.0</u>	<u>18,129</u>	<u>100.0</u>	<u>16,131</u>	<u>100.0</u>	<u>33,922</u>	<u>100.0</u>

Other Operating Expenses

Other operating expenses of HPL primarily attribute to exchange losses in relation to the fluctuation of U.S. dollars, Indonesian rupiahs, RMB, Euros and Great Britain Pound.

Finance Costs

Finance costs of HPL consist of interest on bank borrowings and interest on lease liabilities.

	Year ended December 31,		Eleven Months ended November 30,	
	2019	2020	2020	2021
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest on bank borrowings	3,206	17,688	15,082	22,595
Interest on lease liabilities	—	—	—	60
Subtotal	3,206	17,688	15,082	22,655
Less: interest capitalized	<u>(3,206)</u>	<u>(17,688)</u>	<u>(15,082)</u>	<u>(12,579)</u>
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,076</u>

Period-to-Period Comparison of the Results of Operations of HPL

Period from January 1, 2021 to the Acquisition Date Compared to the Same Period in 2020

Revenue

Revenues from contracts with customers of HPL was US\$187.8 million for the period from January 1, 2021 to the Acquisition Date, as it began to sell nickel-cobalt compounds products in June

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2021, after phase I of the HPAL project commenced operation in May 2021. HPL did not record any revenues from contracts with customers for the eleven months ended November 30, 2020.

Cost of Sales

Cost of sales of HPL was US\$78.5 million for the period from January 1, 2021 to the Acquisition Date, as HPL started to generate revenue from contracts with customers in June 2021. HPL did not record any cost of sales for the eleven months ended November 30, 2020.

Gross Profit and Gross Margin

Gross profit of HPL was US\$109.3 million for the period from January 1, 2021 to the Acquisition Date. Gross profit margin was 58.2% for the same period. HPL did not record any gross profit for the eleven months ended November 30, 2020 as it did not generate any revenue from contracts with customers or cost of goods sold during such period.

Other Income and Gains

Other income and gains of HPL decreased by 94.3% from US\$4.3 million for the eleven months ended November 30, 2020 to US\$246 thousand for the period from January 1, 2021 to the Acquisition Date, primarily because HPL recorded a US\$3.8 million net foreign exchange gains for the eleven months ended November 30, 2020, whereas it did not record any net foreign exchange gains for the period from January 1, 2021 to the Acquisition Date.

Selling and Distribution Expenses

Selling and distribution expenses of HPL was US\$55 thousand for the period from January 1, 2021 to the Acquisition Date, as HPL started to sell its nickel-cobalt compounds in June 2021. HPL did not incur any selling and distribution expenses in the eleven months ended November 30, 2020.

Administrative Expenses

Administrative expenses of HPL increased significantly from US\$16.1 million for the eleven months ended November 30, 2020 to US\$33.9 million for the same period in 2021, primarily due to (i) an increase of US\$6.7 million in staff costs as HPL recruited more personnel for the construction of the HPAL project, and (ii) an increase of US\$5.5 million in living and accommodation expenses, which was primarily due to HPL's increased headcount.

Other Operating Expenses

HPL incurred other operating expenses of US\$2.7 million from January 1, 2021 to the Acquisition Date, primarily due to exchange losses. HPL did not incur any other operating expenses for the same period in 2020.

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Finance Costs

HPL incurred finance costs of US\$10.1 million from January 1, 2021 to the Acquisition Date, as a result of increased bank borrowings to support the continued construction and operation of the HPAL project, which was partially offset by the capitalization of a portion of HPL's interest on bank borrowings. HPL did not incur any finance costs for the same period in 2020, as all of its interest on bank borrowings was capitalized.

Profit for the Period

As a result of the foregoing, HPL recorded a profit of US\$63.0 million for the period from January 1, 2021 to the Acquisition Date, compared to a loss of US\$11.8 million for the same period in 2020.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

HPL did not generate any revenue from contracts with customers in either 2019 or 2020.

Cost of Sales

HPL did not incur any cost of sales in either 2019 or 2020.

Other Income and Gains

Other income and gains of HPL increased significantly from US\$184 thousand in 2019 to US\$2.9 million in 2020, primarily because an increase in net foreign exchange gains.

Selling and Distribution Expenses

HPL did not generate any selling and distribution expenses in either 2019 or 2020.

Administrative Expenses

Administrative expenses of HPL increased significantly from US\$7.6 million in 2019 to US\$18.1 million in 2020, primarily due to (i) an increase of US\$2.9 million in staff costs, as HPL recruited more personnel for the construction of the HPAL project, (ii) an increase of US\$2.8 million in living and accommodation expenses, which was primarily due to HPL's increased headcount, and (iii) an increase of US\$2.3 million in other expenses, due to HPL's increased headcount to support the HPAL project.

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Other Operating Expenses

HPL incurred other operating expenses of US\$0.7 million in 2019, primarily due to exchange loss. HPL did not incur any other operating expenses in 2020.

Finance Costs

HPL did not incur any finance costs in either 2019 or 2020, as all of HPL's interest on bank borrowings in 2019 and 2020 was capitalized.

Loss for the Year

As a result of the foregoing, HPL incurred a loss of US\$15.2 million in 2020, compared to a loss of US\$8.1 million in 2019.

Current Assets and Current Liabilities

The following table sets out the current assets and liabilities of HPL as of the dates indicated:

	<u>As of December 31,</u>		<u>As of</u>
	<u>2019</u>	<u>2020</u>	<u>November 30,</u>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>2021</i>
			<i>US\$'000</i>
CURRENT ASSETS			
Inventories	—	—	68,424
Trade receivables	—	—	65,358
Prepayments, other receivables and other assets	13,587	20,738	23,077
Due from related parties	27	574	934
Pledged deposits	4,733	—	18,880
Cash and cash equivalents	50,691	8,948	62,179
Total current assets	<u>69,038</u>	<u>30,260</u>	<u>238,852</u>
CURRENT LIABILITIES			
Interest-bearing bank borrowings	170,693	331,763	27,152
Trade payables	—	—	23,065
Lease liabilities	—	—	445
Other payables and accruals	28,336	82,460	80,095
Due to related parties	2,648	32,633	23,720
Total current liabilities	<u>201,677</u>	<u>446,856</u>	<u>154,477</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>(132,639)</u>	<u>(416,596)</u>	<u>84,375</u>

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Cash Flows

The following table sets out the cash flows of HPL for the periods indicated:

	Year ended December 31,		Period ended
	2019	2020	November 30,
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Net cash used in/(from) operating activities	(20,452)	(21,703)	4,702
Net cash used in investing activities	(268,810)	(250,253)	(250,075)
Net cash flows from financing activities	<u>338,572</u>	<u>230,213</u>	<u>298,604</u>
Net increase/(decrease) in cash and cash equivalents	49,310	(41,743)	53,231
Cash and cash equivalents at beginning of year/period	<u>1,381</u>	<u>50,691</u>	<u>8,948</u>
Cash and cash equivalents at end of year/period	<u>50,691</u>	<u>8,948</u>	<u>62,179</u>