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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF ZONGCHUAN INVESTMENT GROUP CO., LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF PAK TAK INTERNATIONAL LIMITED

INTRODUCTION

We report on the historical financial information of Zongchuan Investment Group Co., Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-41, which comprises the combined statements of financial position of the Target Group as at 31 December 2021, 2022 and 2023, the statement of financial position of the Target Company as at 31 December 2023, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Group for each of the three years ended 31 December 2023 (the "**Relevant Periods**") and material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-41 forms an integral part of this report, which has been prepared for inclusion in the circular of Pak Tak International Limited (the "**Company**") dated 28 June 2024 (the "**Circular**") in connection with the proposed acquisition of entire issued share capital of the Target Company.

DIRECTOR'S RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The director of the Target Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the director of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The director of the Company is responsible for the contents of this Circular in which the Historical Financial Information of the Target Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

REPORTING ACCOUNTANTS' RESPONSIBILITY

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's and the Target Company's financial position as at 31 December 2021, 2022 and 2023 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

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

Adjustments

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

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividend was declared or paid by the Target Group in respect of the Relevant Periods.

NO HISTORICAL FINANCIAL STATEMENTS FOR THE TARGET COMPANY

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

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 June 2024

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

This Historical Financial Information in this report was prepared based on consolidated financial statements of Zongchuan Investment Group Co., Limited and its subsidiaries and financial statements of Fushun Xingzhou Mining Co., Ltd* (撫順興洲礦業有限公司) (Formerly known as 撫順罕王興洲礦業有限公司) ("**Fushun Xingzhou**") for the Relevant Periods, which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA and were audited by us, in accordance with Hong Kong Standards of Auditing issued by the HKICPA ("**Underlying Financial Statements**").

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

* *For identification purpose only.*

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2021	**2022**	**2023**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	6	687,087	451,807	317,419
Cost of sales		(372,628)	(334,188)	(300,465)
Gross profit		314,459	117,619	16,954
Other income	7	6,169	5,715	8,100
Other gains and losses, net	8	(107)	4,535	(1,959)
Administrative expenses		(85,759)	(68,496)	(56,607)
Finance costs	9	(14,129)	(14,111)	(31,092)
Profit (loss) before tax		220,633	45,262	(64,604)
Income tax (expense) credit	10	(55,732)	(12,956)	15,130
Profit (loss) and total comprehensive income (expense) for the year	11	164,901	32,306	(49,474)
Attributable to:				
Owners of the Company		164,901	32,033	(47,802)
Non-controlling interests		–	273	(1,672)
		164,901	32,306	(49,474)

COMBINED STATEMENTS OF FINANCIAL POSITION

		At 31 December		
		2021	2022	2023
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	15	416,620	513,337	533,473
Intangible assets	16	10,932	10,108	9,020
Right-of-use assets	17	98,691	96,932	95,174
Deferred tax assets	23	–	–	4,748
		526,243	620,377	642,415
Current assets				
Inventories	18	38,410	34,171	48,877
Trade, bills and other receivables	19	50,907	48,798	67,725
Tax recoverable		17,458	14,973	9,180
Restricted cash	20	3,334	3,343	5,071
Bank balances and cash	20	12,172	12,214	633
		122,281	113,499	131,486
Current liabilities				
Trade and other payables	21(a)	249,455	274,297	109,611
Bank borrowings	22	60,000	128,000	165,000
		309,455	402,297	274,611
Net current liabilities		(187,174)	(288,798)	(143,125)
Total assets less current liabilities		339,069	331,579	499,290
Non-current liabilities				
Bank borrowings	22	80,000	–	220,000
Provision for rehabilitation	21(b)	11,369	17,283	24,766
Deferred tax liabilities	23	6,092	10,382	–
		97,461	27,665	244,766
Net assets		241,608	303,914	254,524

		At 31 December		
		2021	2022	2023
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Capital and reserves				
Equity attributable to:				
Owners of the Company				
Share capital	24	30,000	31,050	60,084
Reserves		211,608	272,618	195,866
		241,608	303,668	255,950
Non-controlling interests		–	246	(1,426)
Total equity		241,608	303,914	254,524

STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

	NOTES	At 31 December 2023 RMB'000
Non-current asset		
Investments in subsidiaries		55
Current asset		
Amount due from immediate holding company	19	86
Current liability		
Amount due to a subsidiary	21(a)	55
Net current assets		31
Total assets less current liability		86
Net assets		86
Capital and reserves		
Share capital		84
Reserves		2
Total equity		86

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital *RMB'000*	Statutory reserve *RMB'000* *(Note a)*	Capital reserve *RMB'000*	Other reserve *RMB'000* *(Note b)*	Retained profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2021	30,000	4,292	–	–	42,415	76,707	–	76,707
Profit and total comprehensive income for the year	–	–	–	–	164,901	164,901	–	164,901
Transfer to other reserve	–	–	–	17,976	(17,976)	–	–	–
Profit appropriation to statutory surplus reserve	–	16,490	–	–	(16,490)	–	–	–
At 31 December 2021	30,000	20,782	–	17,976	172,850	241,608	–	241,608
Profit and total comprehensive income for the year	–	–	–	–	32,033	32,033	273	32,306
Capital injection	1,050	–	28,950	–	–	30,000	–	30,000
Transfer to other reserve	–	–	–	7,483	(7,483)	–	–	–
Profit appropriation to statutory surplus reserve	–	3,230	–	–	(3,203)	27	(27)	–
At 31 December 2022	31,050	24,012	28,950	25,459	194,197	303,668	246	303,914
Loss and total comprehensive expense for the year	–	–	–	–	(47,802)	(47,802)	(1,672)	(49,474)
Capital transfer from reserve	28,950	–	(28,950)	–	–	–	–	–
Capital injection	84	–	–	–	–	84	–	84
Transfer to other reserve	–	–	–	29,753	(29,753)	–	–	–
At 31 December 2023	60,084	24,012	–	55,212	116,642	255,950	(1,426)	254,524

Notes:

a. The statutory reserve represents the amount transferred from net profit for the year established in the People's Republic of China (the "**PRC**") (based on the subsidiaries' PRC statutory financial statements) in accordance with the relevant PRC laws until the statutory reserve reaches 50% of the registered capital the Target Group. The statutory reserve cannot be reduced except that it can either be used to set off the accumulated losses or to increase capital.

b. The other reserve mainly represents the reserve for future development fund. Pursuant to regulation in the PRC, the Target Group is required to transfer an amount to a future development fund annually. On 21 November 2022, the PRC government released new rules for future development fund. If the balance of the entity's future development fund reaches three times or more of the accrued amount of the previous year, the transfer to future development fund can be stopped. The fund can only be used for enhancement of safety production environment and improvement of facilities of the iron ore mining business and production of high-purity iron and is not available for distribution to shareholders.

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit (loss) before tax	220,633	45,262	(64,604)
Adjustments for:			
Depreciation of plant, property and equipment	46,778	48,807	53,347
Loss on disposal/write-off of plant, property and equipment	–	535	1,734
Gain on reversal of payables	–	(5,070)	–
Bank interest income	(40)	(54)	(227)
Finance costs	14,129	14,111	31,092
Amortisation of intangible assets	789	824	1,088
Amortisation of right-of-use assets	1,758	1,759	1,758
Foreign exchange gain	–	–	(2)
Operating cash flows before movements in working capital	284,047	106,174	24,186
(Increase) decrease in inventories	(35,133)	4,239	(14,706)
Decrease (increase) in trade, bills and other receivables	264,601	11,959	(7,433)
(Decrease) increase in trade and other payables	(85,008)	64,898	(89,392)
Net cash generated from (used in) operations	428,507	187,270	(87,345)
Income taxes refunded	–	9,224	6,325
Income taxes paid	(70,782)	(15,405)	(532)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	357,725	181,089	(81,552)

	Year ended 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
INVESTING ACTIVITIES			
Additions of plant, property and equipment	(165,758)	(146,059)	(72,697)
Proceeds from disposal of plant, property and equipment	–	–	307
Advances to a related company	(6,626)	(9,850)	(15,700)
Repayments from a related company	5,000	–	4,292
Placement of restricted cash	(590)	(9)	(1,728)
Interest received	40	54	227
NET CASH USED IN INVESTING ACTIVITIES	(167,934)	(155,864)	(85,299)
FINANCING ACTIVITIES			
Repayments of bank borrowings	(323,000)	(62,000)	(128,000)
Interest paid	(13,598)	(13,035)	(32,521)
Bank borrowings raised	140,000	50,000	385,000
Advances from (repayments to) a related company	17,441	(30,148)	(69,209)
Proceeds from issue of shares	–	30,000	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(179,157)	(25,183)	155,270
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,634	42	(11,581)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,538	12,172	12,214
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY BANK BALANCES AND CASH	12,172	12,214	633

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

The Target Company is an investment-holding company established in the British Virgin Islands with limited liability on 9 June 2023.

The immediate holding company of the Target Company is Zongchuan Investment Holdings Co., Limited ("**Zongchuan Investment**"), a company established in the British Virgin Islands established on 9 June 2023. The ultimate controlling parties are Mr. Wu Qi, Ms. Wu Shasha and Mr. Wu Yumei as Wu's family, who owns 50%, 25% and 25%, respectively, of the Target Company.

The addresses of the registered office of the Target Company is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands and the principal place of the business of the Target Company is Fushun City Dongzhou District Nianpan Township Taigou Village.

The Target Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 32.

The combined financial statements is presented in RMB which is the same as the Target Company's functional currency.

2. BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared for inclusion in the circular of Pak Tak International Limited (the "**Company**") dated 28 June 2024 in connection with acquisition of entire issued share capital of the Target Company by the Company (the "**Acquisition**").

Group reorganisation

Before the reorganisation, Fushun Xingzhou, ultimately beneficially owned as to 40%, 30% and 30% by Mr. Wu Zongchuan, Mr. Wu Qi, Ms. Wu Shasha as Wu's family, respectively.

On 9 June 2023, the Target Company was established as an investment holding company in the British Virgin Islands with limited liability. The number of authorised ordinary shares of the Target Company is 10,000 of USD 1 each. On the date of its incorporation, one share in the Target Company was allotted and issued to Zongchuan Investment. The Target Company then became a wholly owned subsidiary of Zongchuan Investment.

On 11 July 2023, Hong Kong Zongchuan Investment Group Co., Limited ("**HK Zongchuan**") was established in Hong Kong. Its authorised share capital was HK$50,000 dividend into 50,000 shares. On the date of its incorporation, 50,000 shares in HK Zongchuan were allotted and issued to the Target Company at total subscription price of HK$50,000. As a result, HK Zongchuan became directly wholly owned subsidiary of the Target Company.

On 6 November 2023, Zhejiang Xingzhou Enterprise Management Co., Ltd* (浙江興洲企業管理有限公司) ("**Zhejiang Xingzhou**") was established in the PRC with HK Zongchuan as its sole equity holder. As at the date of its establishment, the registered capital of Zhejiang Xingzhou was RMB10,000,000.

In 2024, Zhejiang Xingzhou and Zhejiang Zongchuan Holdings Co., Ltd. (浙江宗傳控股有限公司*) ("**Zhejiang Zongchuan**") will enter into sale and purchase agreement to acquire 96.62% interest in Fushun Xingzhou. Upon completion, the Target Company will indirectly hold 96.62% of the equity interest in Fushun Xingzhou.

Upon completion, the Target Company will become the holding company of the companies now comprising the Target Group by interspersing the Target Company, HK Zongchuan, Zhejiang Xingzhou and Fushun Xingzhou. The Target Group comprising the Target Company and its subsidiaries resulting from the reorganisation is regarded as a continuing entity. Historical Financial Information has been prepared as if the Target Company had always been the holding company of the Target Group.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows which include the financial performance, changes in equity and cash flows of the companies now comprising the Target Group for the Relevant Periods and have been prepared as if the Target Company had always been the holding company of the Target Group and the current group structure had been in existence throughout the periods, or since the respective date of establishment/incorporation of the relevant entity where there is a shorter period.

The combined statements of financial position at 31 December 2021, 2022 and 2023 have been prepared to present the assets and liabilities of the companies now comprising the Target Group as if the current group structure had been in existence at those dates, taking into account the respective dates of establishment/incorporation of the relevant entity.

No statutory financial statements of the Target Company have been prepared since it is incorporated in the jurisdiction where there is no statutory audit requirements.

As of 31 December 2023, the Target Group's current liabilities exceeded its current assets by RMB143,125,000. The director of the Target Company is of the opinion that, taking into account the internal financial resources and presently available banking facilities of the Target Group, the Target Group has sufficient working capital for its present requirement within one year from the end of the reporting period. Hence, the combined financial statements have been prepared on a going concern basis.

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "*Inventories*" or value in use in HKAS 36 "*Impairment of Assets*".

* *For identification purpose only*

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Group has consistently applied the accounting policies which conform with the HKFRSs, which are effective for accounting period beginning on 1 January 2023 throughout the Relevant Periods.

Amendments to HKFRSs that have been issued but not yet effective

At the date of this report, the following amendments to HKFRSs have been issued which are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined
2 Effective for annual periods beginning on or after 1 January 2024
3 Effective for annual periods beginning on or after 1 January 2025

The director of the Target Company anticipates that the application of these amendments to HKFRSs will have no material impact on the combined financial statements of the Target Group in the foreseeable future.

4. MATERIAL ACCOUNTING POLICY INFORMATION

Property, plant and equipment

Property and equipment including buildings held for use in the production or supply of goods, or for administrative purposes (other than construction in progress as described below) are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress and mining structure less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Mining structure are depreciated using the unit of production method over the remaining life of the mine. The life of mine is based on the total estimated proven and probable reserves of the iron mines.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets – Mining rights

Mining rights are stated at cost less amortisation and any recognised impairment loss. The mining rights are amortised in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the units of production method. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to the customer. A performance obligation represents goods that is distinct. Revenue from the sales of goods (i.e. iron ore concentrate and tailing sand) is recognised at a point in time when the goods are delivered and control of the goods is transferred to the customer.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Target Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 "*Leases*" at inception or modification date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Right-of-use assets

The cost of right-of-use assets includes:

- any lease payments made at or before the commencement date, less any lease incentives received; and

- any initial direct costs incurred by the Target Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Impairment on property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Target Group reviews the carrying amounts of its property and equipment, right-of-use assets and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established. The recoverable amount is determined for the cash-generating unit to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Target Group must incur to make the sale.

Provisions

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provision for rehabilitation

The mining extraction and processing activities of the Target Group normally give rise to obligations for site closure or rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling; removal or treatment of waste materials and restoration; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Target Group's environmental policies. Provisions for the cost of each closure and rehabilitation program are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

Borrowing costs

Borrowing costs directly attributable to construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Target Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of current and deferred income tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit (loss) before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 "*Revenue from Contracts with Customers*". Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the Relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset and financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Impairment of financial assets

The Target Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade, bills and other receivables, restricted cash and bank balances) which are subject to impairment assessment under HKFRS 9 "*Financial Instruments*". The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Target Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Target Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the significant financial difficulty of the issuer or the borrower or a breach of contract, such as a default or past due event or the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

The Target Group always recognises lifetime ECL for trade receivables and bill receivables. The ECL on trade receivables and bill receivables are assessed individually. For all other instruments, the Target Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Target Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability weighted amount that is determined with the respective risks of default occurring as the weights. The ECL is the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at the effective interest rate determined at initial recognition. The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party. For ECL on financial guarantee for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the obligation specified in the relevant contract is discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4, the management of the Target Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Estimated useful lives of property, plant and equipment and intangible assets

The Target Group determines the estimated useful lives and related depreciation/amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature, taking into consideration of the production plan and the estimated reserves of the mines (included in intangible assets) using the unit-of-production method. The Target Group will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or will write off/write down those assets which are technically obsolete or abandoned.

Recognition of deferred tax assets

The Target Group recognised deferred tax assets for all deductible temporary differences to the extent that it is probable that taxable profit would be available against which the deductible temporary difference can be utilised. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be charged to profit or loss in which such a reversal takes place. As at 31 December 2023, the carrying amount of deferred tax assets is RMB4,748,000.

6. REVENUE AND SEGMENT INFORMATION

Performance obligations for contracts with customers

The Target Group produces and sells iron ore concentrates directly to customers. Revenue is recognised when control of the goods has transferred, being the time when the goods are delivered and accepted. Revenue is recognised at a point in time.

A contract liability represents the Target Group's obligation to transfer goods to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer and included in customer deposits.

The Target Group determines its operating segments based on the reports reviewed by the management of Target Group, being the chief operating decision maker (the "CODM"), that are used to make strategic decisions. Information reported to the CODM, for the purposes of resource allocation and assessment focuses on revenue analysis as a whole. No other discrete financial information is provided other than the Target Group's results and financial position. No segment information are presented.

Geographical information

The Target Group's revenue from external customers is derived solely from its operations in the PRC.

Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the Target Group's revenue, is set out below:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	496,201	–*	44,543
撫順誠泰礦業貿易有限公司 (**"Fushun Cheng Tai"**)**	–*	429,771	246,847
	496,201	429,771	291,390

* The amount is less than 10% of the Target Group's revenue.

** The related company is controlled by the director of the Target Company.

7. OTHER INCOME

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Sales of by-products of iron ore	4,921	5,510	7,672
Government subsidies *(Note)*	681	58	100
Bank interest income	40	54	227
Others	527	93	101
	6,169	5,715	8,100

Note: Amounts represent the grants received from the relevant PRC government to encourage the business operation in specific regions in the PRC. The subsidies were unconditional and granted on a discretionary basis to the Target Group.

8. OTHER GAINS AND LOSSES, NET

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Gain on reversal of payables	–	5,070	–
Loss on disposal/write-off of property, plant and equipment	–	(535)	(1,734)
Others	(107)	–	(225)
	(107)	4,535	(1,959)

9. FINANCE COSTS

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank borrowings	13,598	13,035	32,521
Interest on rehabilitation costs	531	1,076	1,398
	14,129	14,111	33,919
Less: Amount capitalised in property, plant and equipment	–	–	(2,827)
	14,129	14,111	31,092

Borrowing costs capitalised during the year ended 31 December 2023 arised on the funds borrowed specifically for the purpose of obtaining for qualifying assets.

10. INCOME TAX EXPENSE (CREDIT)

	Year ended 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
PRC Enterprise Income Tax ("**EIT**")	49,442	8,666	–
Deferred tax charge (credit) *(note 23)*	6,290	4,290	(15,130)
	55,732	12,956	(15,130)

The Target Company is not subject to any taxation in British Virgin Islands. British Virgin Islands levies no tax on the income of the Target Group.

No provision for Hong Kong Profits Tax has been made as the Target Group does not have income which arises in, or is derived from, Hong Kong.

Under the Law of the People's Republic of China on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

The income tax expense (credit) for each of the Relevant Periods can be reconciled to the profit (loss) before tax per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Profit (loss) before tax	220,633	45,262	(64,604)
Tax at the PRC EIT rate of 25%	55,158	11,316	(16,151)
Tax effect of expenses not deductible for tax purpose	574	1,640	1,021
Income tax expense (credit)	55,732	12,956	(15,130)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in respect of temporary differences attributable to accumulated profits approximately amounting to RMB172,850,000, RMB194,197,000 and RMB116,642,000 as at 31 December 2021, 2022 and 2023, respectively, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

11. PROFIT (LOSS) FOR THE YEAR

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Profit (loss) for the year has been arrived at after charging:			
Auditors' remuneration	36	40	39
Depreciation of plant, property and equipment	46,778	48,807	53,347
Amortisation of intangible assets	789	824	1,088
Amortisation of right-of-use assets	1,758	1,759	1,758
Inventories recognised as cost of sales	372,628	334,188	300,465
Director's emoluments	–	–	–
Other staff's salaries and other benefits	5,838	6,241	6,179
Other staff's contributions to retirement benefit scheme	906	999	1,015

12. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

Director's emoluments

Name of director of the Target Company	**Period of appointment**
Mr. Wu Zongchuan	9 June 2023

No emoluments were recognised or paid by Target Group to the director of Target Company as compensation for loss of office and inducement to join for the Relevant Periods. The director of the Target Company had not waived any emoluments during the Relevant Periods.

Five highest paid individuals

The emoluments of the five highest paid individuals were as follows:

	For the year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	606	568	662
Contributions to retirement benefit scheme	122	182	121
	728	750	783

The number of the highest paid employees who are not the director of the Target Company whose remuneration fell within the following bands is as follows:

	For the year ended 31 December		
	2021	**2022**	**2023**
Less than HKD1,000,000	5	5	5

No amount was paid to the five highest paid employees during the financial year or receivable as an inducement to join or upon joining the Target Group. No compensation was paid to the five highest paid employees during the Relevant Periods or receivable for the loss of any office in connection with the management of the affairs of any member of the Target Group distinguishing between contractual payments and other payments.

13. DIVIDENDS

No dividend has been declared or paid by the Target Group in respect of the Relevant Periods.

14. EARNINGS (LOSS) PER SHARE

No earnings (loss) per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Mining structure	Plant and machinery	Other equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2021	115,188	115,610	114,893	13,512	7,036	366,239
Additions	12,680	132,743	14,318	5,476	541	165,758
Transfer	7,037	–	–	–	(7,037)	–
At 31 December 2021	134,905	248,353	129,211	18,988	540	531,997
Additions	10,019	71,077	18,128	5,587	41,248	146,059
Transfer	7	–	204	–	(211)	–
Write-off	(51)	–	(1,109)	(141)	–	(1,301)
At 31 December 2022	144,880	319,430	146,434	24,434	41,577	676,755
Additions	6,286	11,928	5,971	287	51,052	75,524
Transfer	–	60,200	–	–	(60,200)	–
Disposal	–	–	(5,722)	(161)	–	(5,883)
At 31 December 2023	151,166	391,558	146,683	24,560	32,429	746,396
DEPRECIATION						
At 1 January 2021	(20,754)	(14,443)	(26,306)	(7,096)	–	(68,599)
Provided for the year	(5,514)	(27,129)	(11,593)	(2,542)	–	(46,778)
At 31 December 2021	(26,268)	(41,572)	(37,899)	(9,638)	–	(115,377)
Provided for the year	(6,495)	(25,988)	(12,420)	(3,904)	–	(48,807)
Write-off	14	–	618	134	–	766
At 31 December 2022	(32,749)	(67,560)	(49,701)	(13,408)	–	(163,418)
Provided for the year	(6,604)	(28,388)	(14,478)	(3,877)	–	(53,347)
Eliminated on disposal	–	–	3,689	153	–	3,842
At 31 December 2023	(39,353)	(95,948)	(60,490)	(17,132)	–	(212,923)
CARRYING VALUES						
At 31 December 2021	108,637	206,781	91,312	9,350	540	416,620
At 31 December 2022	112,131	251,870	96,733	11,026	41,577	513,337
At 31 December 2023	111,813	295,610	86,193	7,428	32,429	533,473

Certain owned properties of the Target Group are erected on land in the PRC with respect to which the Target Group has not been granted formal title of ownership. At 31 December 2021, 2022 and 2023, the carrying value of such owned properties was RMB108,637,000, RMB112,131,000 and RMB111,813,000 respectively. The director of the Target Company considers that the absence of formal title to these owned properties does not impair the value of the relevant owned properties to the Target Group as the Target Group has paid substantially the full purchase consideration of these land use rights and the probability of being evicted on the ground of an absence of formal title is remote. The director of the Target Company believes that formal title of these owned properties will be granted to the Target Group in due course.

The above items of property, plant and equipment, except for mining structure and construction in progress, after taking into account their estimated residual value, are depreciated on a straight-line basis within the following period:

Buildings	Over the term of the lease or 20 years, whichever is shorter
Plant and machinery	3 to 10 years
Other equipment	3 to 10 years

The mining structures are infrastructures which include mainly the main and auxiliary mine shafts, underground tunnels and other mining costs recognised for the future economic benefits of the operation. Depreciation is provided to write off the cost of the mining structures using the unit of production method over the remaining life of the mine based on the proven and probable reserves.

Impairment of property, plant and equipment, intangible assets and rights-of-use assets

With operating loss for the year ended 31 December 2023, the management of the Target Group concluded there was indication for impairment and conducted impairment assessment. For the purpose of impairment testing, property, plant and equipment, intangible assets and rights-of-use assets set out in notes 15, 16 and 17 in relation to iron ore business are treated as a cash-generating unit. The recoverable amount of that cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial forecasts approved by management covering 10 years, which is determined by projected 10 years of production, and pre-tax discount rate of 16% per annum. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted revenue and gross margin; such estimation is based on the cash-generating unit's past performance and management's expectations for the market development. Following the impairment assessment conducted by the management of the Target Group, it is considered no impairment loss is required to recognise for property, plant and equipment, intangible assets and rights-of-use assets because their estimated recoverable amounts are higher than their carrying amounts.

16. INTANGIBLE ASSETS

	Mining rights
	RMB'000
COST	
At 1 January 2021, 31 December 2021, 2022 and 2023	31,369
AMORTISATION	
At 1 January 2021	19,648
Provided for the year	789
At 31 December 2021	20,437
Provided for the year	824
At 31 December 2022	21,261
Provided for the year	1,088
At 31 December 2023	22,349
CARRYING VALUES	
At 31 December 2021	10,932
At 31 December 2022	10,108
At 31 December 2023	9,020

The above intangible assets have definite useful lives. Mining rights are amortised, in accordance with the proved and probable reserves of the mines using the units of production method.

No impairment loss has been recognised during the Relevant Periods. All intangible assets of the Group had been pledged as securities for bank borrowings as at 31 December 2021, 2022 and 2023 with details summarised in note 26.

17. RIGHTS-OF-USE ASSETS

	Leasehold land
	RMB'000
COST	
At 1 January 2021, 31 December 2021, 2022 and 2023	112,756
AMORTISATION	
At 1 January 2021	12,307
Provided for the year	1,758
At 31 December 2021	14,065
Provided for the year	1,759
At 31 December 2022	15,824
Provided for the year	1,758
At 31 December 2023	17,582
CARRYING VALUES	
At 31 December 2021	98,691
At 31 December 2022	96,932
At 31 December 2023	95,174

Restrictions or covenants on leases

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessors. Leased assets may not be used as security for borrowing purposes.

18. INVENTORIES

	At 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Materials	19,343	10,161	25,555
Finished goods	5,689	4,801	8,567
Auxiliary materials	13,378	19,209	14,755
	38,410	34,171	48,877

19. TRADE, BILLS AND OTHER RECEIVABLES

The Target Group

	At 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	2,238	183	380
Bills receivables	11,120	–	11,120
Other receivables	32,276	41,194	53,072
Deposits and prepayment	1,559	1,221	458
VAT tax receivables	3,714	6,200	2,695
	50,907	48,798	67,725

The trade receivables from contracts with customers amounted to RMB20,339,000 as at 1 January 2020.

Include in trade receivables, there are amounts due from Fushun Cheng Tai of RMB313,000, nil and nil as at 31 December 2021, 2022 and 2023, respectively. The amounts are unsecured, interest-free and repayable according to the relevant agreements.

The credit period granted to the customers ranges from 30 to 90 days from the date of issuance of a monthly statement with respect to goods delivered in the particular month.

The following is an aging analysis of trade receivables presented based on the date of invoice dates:

	At 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	2,055	–	52
31 to 60 days	–	–	150
91 to 180 days	–	–	178
Over 1 year	183	183	–
	2,238	183	380

The following is an aging analysis of bills receivables presented based on the date of issuance of the bills:

	At 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	11,120	–	–
91 to 180 days	–	–	11,120
	11,120	–	11,120

All bills receivables are issued by Fushun Cheng Tai and are held by the Target Group for future settlement of trade receivables and are with a maturity period of less than one year. The Target Group continues to recognise their full carrying amounts at the end of each reporting periods.

As at 31 December 2021, 2022 and 2023, included in the Target Group's trade receivables balances are debtors with aggregate carrying amounts of RMB183,000, RMB183,000 and nil which are past due as at the reporting date. Out of the past due balances, RMB183,000, RMB183,000 and nil have been past due 90 days or more and is not considered as in default as these balances are either due from debtors with long term business relationship or are individually insignificant. Other than bills receivables with aggregate carrying amounts of RMB11,120,000, nil and RMB11,120,000, the Target Group does not hold any collateral over these balances.

Included in other receivables, there are amounts due from Zhejiang Zongchuan of RMB30,254,000, RMB40,104,000 and RMB51,512,000 and amounts due from Zongchuan Investment of nil, nil and RMB86,000 as at 31 December 2021, 2022 and 2023, respectively. The amounts are unsecured, interest-free and repayable on demand. Zhejiang Zongchuan and Zongchuan Investment are related companies controlled by the director of the Target Company.

Details of impairment assessment of trade and other receivables are set out in note 31.

The Target Company

The Target Company's amount due from Zongchuan Investment, as at 31 December 2023 is unsecured, interest-free and repayable on demand.

20. RESTRICTED CASH AND BANK BALANCES AND CASH

Cash at banks earns interest of floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The bank balances carry interest at market rates ranging from 0.2% to 0.3% (2021 and 2022: from 0.2% to 0.3%) per annum.

The amounts of restricted cash represent deposits for the obligation of rehabilitation, which carry interest rates ranging from 0.2% to 0.3% (2021 and 2022: from 0.2% to 0.3%) per annum.

21(a). TRADE AND OTHER PAYABLES

The Target Group

	At 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	134,444	173,013	66,723
Other payables *(Note a)*	104,378	74,295	5,070
Customer deposits *(Note b)*	–	11,216	16,313
Other tax payables	2,750	2,187	4,630
Salary payables	7,883	13,586	16,875
	249,455	274,297	109,611

The credit period granted by suppliers to the Group ranges from 30 - 90 days during the Relevant Periods. The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting periods:

	At 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	121,731	61,273	31,506
91 to 180 days	2,491	74,763	2,989
181 days to 1 year	1,593	29,114	8,614
Over 1 year	8,629	7,863	23,614
	134,444	173,013	66,723

Notes:

a. Included in other payables, there are amounts due to 撫順宗傳礦業發展有限公司 (**"Fushun Zongchuan"**), a related company, of RMB99,357,288, RMB69,209,143 and nil as at 31 December 2021, 2022 and 2023, respectively. The amounts are unsecured, interest-free and repayable on demand. The related company is controlled by the director of the Target Company.

b. As at 1 January 2020, customer deposits amounted to RMB9,815,000.

The customer deposits are due to Fushun Cheng Tai, which are unsecured, interest-free and repayable according to the relevant agreements.

Revenue of RMB9,815,000, nil and RMB11,216,000 recognised during the years ended 31 December 2021, 2022 and 2023, respectively that are included in the customer deposits at the beginning of the respective year. The expected timing for customer deposits as at 31 December 2023 recognising as revenue is within one year.

The Target Company

The Target Company's amount due to HK Zongchuan as at 31 December 2023 is unsecured, interest-free and repayable on demand.

21(b). PROVISION FOR REHABILITATION

	2021	**2022**	**2023**
	RMB'000	**RMB'000**	**RMB'000**
At the beginning of the year	*5,664*	*11,369*	*17,283*
Adjustments on provision for rehabilitation	5,174	4,838	6,085
Interest on rehabilitation cost	531	1,076	1,398
At the end of the year	11,369	17,283	24,766

The provision for rehabilitation represents the estimated costs of decommission and rehabilitation of mines and processing sites of the mining projects of the joint operation to be carried out at the end of their producing lives.

The provision for rehabilitation costs have been estimated by the management based on current regulatory requirements and is discounted to present value. However, significant changes in the regulatory requirements, timing of performance of reclamation activities or discount rate will results in changes to the amount of provision from period to period. The discount rates used in the calculation of the provision as at 31 December 2021, 2022 and 2023 was 9.38%, 9.43% and 9.54% per annum, respectively.

22. BANK BORROWINGS

	At 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Secured bank loans	140,000	128,000	385,000

The maturity profile of bank borrowings, based on the scheduled repayment dates set out in relevant loan agreements, is as follows:

	At 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	60,000	128,000	165,000
After 1 year but within 2 years	80,000	–	20,000
After 2 years but within 5 years	–	–	200,000
	140,000	128,000	385,000
Less: Amount due within one year as current liabilities	(60,000)	(128,000)	(165,000)
Amount due for settlement after one year	80,000	–	220,000

As at 31 December 2021, 2022 and 2023, bank loan with principal amount of RMB140,000,000, RMB128,000,000 and RMB385,000,000 is secured by corporate guarantee executed by Fushun Zongchuan and pledged with mining rights, bills receivables and shares of Fushun Xingzhou hold by Zhejiang Zongchuan. Interest is charged at fixed rates ranging from 5.66% to 9.60% per annum, 5.66% to 9.60% per annum and 5.66% to 9.60% per annum, respectively.

23. DEFERRED TAX ASSETS (LIABILITIES)

The followings are the deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Accelerated Accounting/ tax depreciation *RMB'000*	Tax loss *RMB'000*	Total *RMB'000*
At 1 January 2021	198	–	198
Charged to profit or loss	(6,290)	–	(6,290)
At 31 December 2021	(6,092)	–	(6,092)
Charged to profit or loss	(4,290)	–	(4,290)
At 31 December 2022	(10,382)	–	(10,382)
(Charged) credited to profit or loss	(2,264)	17,394	15,130
At 31 December 2023	(12,646)	17,394	4,748

At as 31 December 2021, 2022 and 2023, the Target Group has unused tax loss of approximately nil, nil and RMB69,577,000 available for offset against future profits and has been recognised as a deferred tax asset.

24. SHARE CAPITAL

For the purpose of this report, the capital of the Target Group represents the combined capital of Zongchuan Investment Holdings Limited and its subsidiaries attributable to Fushun Xingzhou Mining Co., Ltd., taking into account the respective dates of incorporation.

25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Target Group's combined statements of cash flows from financing activities.

	Due to a related company	Bank borrowings	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2021	81,916	323,000	404,916
Finance costs recognised	–	13,598	13,598
Financing cash flows	17,441	(196,598)	(179,157)
At 31 December 2021	99,357	140,000	239,357
Finance costs recognised	–	13,035	13,035
Financing cash flows	(30,148)	(25,035)	(55,183)
At 31 December 2022	69,209	128,000	197,209
Finance costs recognised	–	32,521	32,521
Financing cash flows	(69,209)	224,479	155,270
At 31 December 2023	–	385,000	385,000

26. PLEDGE OF ASSETS

Mining rights and bills receivables were pledged to secure borrowings and certain unused facilities from banks as at 31 December 2021, 2022 and 2023.

	At 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Mining rights	10,932	10,108	9,020
Bills receivables	11,120	–	11,120

27. RETIREMENT BENEFIT PLANS

According to the relevant laws and regulations in the PRC, the Target Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered by the local municipal government. The Target Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the actual employee salary to fund the retirement benefits of the employees. The principal obligation of the Target Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. Detailed information on the retirement and employees' benefit plan of the Target Company is provided in note 11 to the combined financial statements.

28. RELATED PARTIES DISCLOSURES

Other than as disclosed in notes 2, 6, 12, 19, 21, 22, 25, 29 and 33, the Target Group had the following significant transactions with a related company during the Relevant Periods:

Company	Transaction	Year ended 31 December 2021	2022	2023
		RMB'000	*RMB'000*	*RMB'000*
Fushun Cheng Tai	Sales of iron ore concentrates	54,719	429,771	246,847

29. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2023, the Target Group issued financial guarantees RMB147,000,000 and RMB11,100,000 in favour of certain banks in respect of banking facilities granted to certain related companies and third parties, respectively. The aggregate amounts that could be required to be paid are RMB158,100,000, if the guarantees were called upon in entirety. The management of the Target Group considers the fair value of the contract is nil at initial recognition and the loss allowance as at 31 December 2023 are insignificant. Details of the credit risk assessment of the financial guarantee contracts are set out in note 31.

30. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Target Group consists of bank borrowings, share capital and reserves.

The management of the Target Group review the capital structure periodically. They consider the cost of capital and the risks associated with each class of capital and balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debts or the redemption of existing debts.

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December 2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Amortised cost	61,140	56,934	70,276
Financial liabilities			
Amortised cost	386,519	387,412	473,483

(b) Financial risk management objectives and policies

The Target Group's financial instruments include trade, bills and other receivables, restricted cash, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes.

The director of the Target Group monitors and manages the financial risks relating to the operations of the Target Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (mainly about interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below and remained unchanged during the Relevant Periods. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Target Group is exposed to fair value interest rate risk relates primarily to bank borrowings which carried fixed interest rate. The director of the Target Company considers the Group's exposure of the bank balances to interest rate risk is not significant. The Target Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits (see note 20 for details) due to the fluctuation of the prevailing market interest rate. The Target Group does not have a policy on hedging interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

No sensitivity analysis is presented since the director of the Target Company considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is limited due to their short maturities.

Credit risk and impairment assessment

The Target Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statements of financial position.

In order to minimise the credit risk, management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures which are carried out to ensure that follow-up action is taken to recover overdue debts. The Target Group performs impairment assessment under ECL model. The Target Group applies the simplified approach to measure ECL which uses a lifetime ECL for trade receivables and trade-related amounts due from related parties. The trade receivables are assessed collectively and trade-related amounts due from related parties are assessed individually to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Target Group's credit risk is significantly reduced.

The credit exposures for trade and bills receivables as further set out below, which are subject to ECL assessment, are considered using a five-grade internal credit rating system.

The credit risk on other receivables is managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Target Group also actively monitors the outstanding amounts owned by each debtor and identifies any credit risk in a timely manner in order to reduce the risk of a credit related loss. In this regard, the director of the Target Company considers that the Target Group's credit risk is significantly reduced.

The Target Group measures the loss allowance on liquid funds equal to 12m ECL. The credit risk on liquid funds is limited because most of the bank balances and deposits are placed with major financial institutions located in the PRC.

As at 31 December 2021, 2022 and 2023, the Target Group has concentration of credit risk on other receivables in respect of a related company, amounting to RMB30,254,000, RMB40,104,000 and RMB51,512,000, respectively. The remaining other receivables are with exposure spread over a number of counterparties and debtors.

The Target Group's internal credit risk grading assessment comprises the following categories:

Credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Medium risk	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Very high risk	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Extremely high risk	There is evidence indicating that the debtor is in severe financial difficulty and the Target Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Target Group's financial assets which are subject to ECL assessment:

					At 31 December		
					2021	2022	2023
	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount *RMB'000*	Gross carrying amount *RMB'000*	Gross carrying amount *RMB'000*
Financial assets at amortised costs							
Trade receivables	19	N/A	Low risk	Lifetime ECL (not credit- impaired)	2,238	183	380
Bills receivables	19	N/A	Low risk	Lifetime ECL (not credit- impaired	11,120	–	11,120
Other receivables	19	N/A	Low risk	12m ECL	32,276	41,194	53,072
Restricted cash	20	N/A	N/A	12m ECL	3,334	3,343	5,071
Bank balances	20	N/A	N/A	12m ECL	12,027	12,145	477

Financial guarantee contracts

No allowance for impairment was made since the management of the Target Group considers that the exposure at default was minimal as the management of the Target Group has obtained understanding of the financial background of the related companies and third parties and concluded that there has been no significant increase in credit risk since initial recognition. The management of the Target Group assesses credit risks in financial guarantee contracts using internal credit rating system. Accordingly, the loss allowance for financial guarantee contracts is measured at an amount equal to 12m ECL and the loss allowance was considered as insignificant.

Liquidity risk

In the management of liquidity risk, the Target Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The director of the Target Company maintains the sufficiency of cash flows with availability of unutilised banking facilities and internally generated funds. The director of the Target Company also reviews the forecasted cash flows on an on-going basis to ensure that the Target Group will be able to meet its financial obligations falling due and have sufficient capital for operation and expansion. Maturity of financial obligations will be re-negotiated with banks and changes on capital expansion plan will be made should the need arise.

The following table details the Target Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2021
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2021								
Trade and other payables	N/A	246,519	-	-	-	-	246,519	246,519
Bank borrowings – fixed rate	9.32	1,108	2,109	69,639	87,470	-	160,326	140,000
		247,627	2,109	69,639	87,470	-	406,845	386,519

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2022
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2022								
Trade and other payables	N/A	259,412	-	-	-	-	259,412	259,412
Bank borrowings – fixed rate	9.60	1,044	1,986	136,274	-	-	139,304	128,000
		260,456	1,986	136,274	-	-	398,716	387,412

	Weighted average interest rate %	On demand or less than 1 month RMB'000	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2023 RMB'000
At 31 December 2023								
Trade and other payables	N/A	88,483	-	-	-	-	88,483	88,483
Bank borrowings – fixed rate	9.50	3,106	16,071	159,704	265,452	-	444,333	385,000
		91,589	16,071	159,704	265,452	-	532,816	473,483

(c) Fair value measurements

The director of the Target Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximate their fair values.

32. PARTICULAR OF SUBSIDIARIES

During the Relevant Periods and as at the date of this report, the Target Company has direct and indirect shareholdings/equity interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered and paid in capital	Equity interest attributable to the Target Group as at 31 December 2021	2022	2023	Date of this report	Principal activities
Indirectly held:							
HK Zongchuan *(Note a)*	Hong Kong 11 July 2023	Authorised and paid up capital HK$50,000	N/A	N/A	100%	100%	Investment holding
Directly held:							
Zhejiang Xingzhou *(Note a)*	PRC 6 November 2023	Registered and paid up capital RMB10,000,000	N/A	N/A	100%	100%	Investment holding
Fushun Xingzhou *(Note b)*	PRC 22 September 2003	Registered and paid up capital RMB300,000,000	100%	96.62%	96.62%	96.62%	Iron ore mining and milling

Notes:

a. No statutory audited financial statements for each of the two years ended 31 December 2022 were available as they were incorporated in 2023. Their statutory financial statements for the period from their respective dates of incorporation to 31 December 2023 are not yet due for issuance.

b. The statutory financial statements of the Fushun Xingzhou for the years ended 31 December 2021, 2022 and 2023 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited by 北京晟晅會計師事務所.

33. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 2 to the combined financial statements, on 29 February 2024, sale and purchase agreement had been entered into between the Target Company, Zongchuan Investment Holding Co., Limited as a vendor and Fushun Xingzhou in relation to the Acquisition.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company, the Target Group or any of the companies comprising the Target Group in respect of any period subsequent to 31 December 2023.