THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any content of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Risun Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

RISUN

China Risun Group Limited
中國旭陽集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1907)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF PARTNERSHIP INTERESTS IN SHUNRI XINZE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the Board is set out from page 7 to page 30 of this circular.

A notice convening the EGM of China Risun Group Limited to be held at Room 2001, 20/F, Sino Plaza, 255 Gloucester Road, Causeway Bay, Hong Kong, on December 23, 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is also enclosed and published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.risun.com).

Whether or not you are able to attend the EGM, you are advised to read the notice of EGM and to complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM (for the purpose of the EGM, not later than December 21, 2020 at 10:00 a.m.) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

December 8, 2020

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In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition Deposits"	the deposits of RMB675 million that Risun Chemicals has paid to the Cinda Parties in accordance with the Framework Agreement entered into between China Cinda, Cinda Capital, Risun Chemicals and Shunri Xinze on September 12, 2019 in relation to the bankruptcy restructuring project of the six Hongye Chemicals Enterprises
"Board" or "Board of Directors"	the board of directors of the Company
"China Cinda"	China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司), a joint stock company incorporated in the PRC with limited liability and listed on the Stock Exchange (stock code: 1359), and an Independent Third Party
"Cinda Capital"	Cinda Capital Management Co., Ltd. (信達資本管理有限公司), a company incorporated in the PRC with limited liability, a wholly-owned subsidiary of China Cinda, and an Independent Third Party
"Cinda Parties"	China Cinda and Cinda Capital
"Company"	China Risun Group Limited (中國旭陽集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on November 8, 2007 and listed on the Stock Exchange (stock code: 1907)
"Compensation"	the compensation payable to China Cinda by Risun Chemicals in accordance with the terms of the Interests Transfer Agreement
"Connected Person"	has the meaning ascribed thereto under the Listing Rules
"Debt Accession Agreement"	the Debt Accession Agreement entered into between China Cinda, Cinda Capital and the six Hongye Chemicals Enterprises on October 16, 2020
"Deferred Debts"	the actual unpaid portion payable to China Cinda out of Transfer Price after the First Completion but before the completion of this Transaction

"Deloitte"	Deloitte Touche Tohmatsu, the reporting accountants of the Target Group and the auditor of the Company
"Directors"	directors of the Company
"Dongju Chemical"	Shandong Dongju Chemical Co., Ltd. (山東東巨化工股份有限公司), a joint stock company established in the PRC on December 17, 2009
"EGM"	the extraordinary general meeting of the Company to be held at Room 2001, 20/F, Sino Plaza, 255 Gloucester Road, Causeway Bay, Hong Kong at 10:00 a.m. on December 23, 2020 for the purpose of considering and, if thought fit, approving the Transaction, or any adjournment thereof
"Enlarged Group"	the Group as enlarged by the consolidation of the Target Group as a result of the Transaction
"Entrusted Operations Deposits"	the entrusted operations deposits of RMB675 million paid by Risun Chemicals in accordance with the Entrusted Operations Management Agreement dated September 12, 2019 and between the Target Group, the sole restructuring investor for the Hongye Group bankruptcy restructuring (which is an Independent Third Party), Risun Chemicals and Beijing Risun Hongye Chemicals Co., Ltd. (北京旭陽宏業化工有限公司, an indirect wholly-owned subsidiary of the Company)
"Fangming Chemical"	Shandong Fangming Chemical Co., Ltd. (山東方明化工股份有限公司), a joint stock company established in the PRC on July 4, 2002
"Fees Payable"	the whole fees payable by Risun Chemicals under the Interests Transfer Agreement, including Transfer Price, Compensation, Remuneration of Managing Partner, default penalty and the relevant costs
"First Completion"	the completion of transfer of 30% LP Interests held by China Cinda to Risun Chemicals in accordance with the Interests Transfer Agreement
"First Completion Date"	the date on which the Cinda Parties have received the first RMB1.7 billion of the Transfer Price after the Interests Transfer Agreement becomes effective

"GP Interests"	all the partnership interests in Shunri Xinze held by Cinda Capital as the general partner to be transferred by Cinda Capital to Risun Chemicals in accordance with the Interests Transfer Agreement
"Group"	the Company and its subsidiaries
"Guarantee Agreement"	the Guarantee Agreement entered into between the Company, China Cinda and Cinda Capital on October 16, 2020
"Hengshun Heat Supply"	Shandong Hengshun Heat Supply Co., Ltd. (山東恒順供熱有限公司), a limited liability company established in the PRC on November 8, 2012
"Hongda Chemical"	Shandong Hongda Chemical Co., Ltd. (山東洪達化工有限公司), a limited liability company established in the PRC on September 12, 2008
"Hongding Chemical"	Shandong Hongding Chemical Co., Ltd. (山東洪鼎化工有限公司), a limited liability company established in the PRC on December 6, 2010
"Hongye Chemicals Enterprises"	Dongju Chemical, Fangming Chemical, Hengshun Heat Supply, Hongda Chemical, Hongding Chemical and Yongzhi Chemical. As of the Latest Practicable Date, Shunri Xinze directly holds 99.99% equity interests in each of these companies, and Risun Chemicals holds 0.01% equity interests in each company for Shunri Xinze on trust
"Hongye Group"	Hongye Chemical Group Co., Ltd. (洪業化工集團股份有限公司), a joint stock company established in the PRC on January 17, 2005 and an Independent Third Party
"Hongye Group Companies"	Hongye Group and its then subsidiaries before their bankruptcy restructuring
"IFRSs"	International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standard Board

"Independent Third Party(ies)"	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to be best of the Directors' knowledge, information and belief, having made all reasonable enquiries, is/are not connected with the Company and its connected persons as defined under the Listing Rules
"Interests Transfer Agreement"	the Interests Transfer Agreement in relation to Wuhu Shunri Xinze Equity Investment Partnership (LP) entered into between Risun Chemicals, China Cinda, Cinda Capital and Shunri Xinze on October 16, 2020
"JLL"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer engaged by the Company for the Transaction
"Latest Practicable Date"	November 30, 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
"LP Interests"	part or all (as the case may be) of the partnership interests in Shunri Xinze held by China Cinda as the limited partner to be transferred by China Cinda to Risun Chemicals or its designated entity in accordance with the Interests Transfer Agreement
"PRC" or "China"	the People's Republic of China, excluding, for the purpose of this circular, Hong Kong Special Administrative Region, Macau Special Administrative Region, and Taiwan Region
"Prospectus"	the Prospectus of the Company dated February 28, 2019
"Remuneration of Managing Partner"	remuneration of Cinda Capital serving as the managing partner of Shunri Xinze to be paid by Risun Chemicals in accordance with the terms of the Interests Transfer Agreement

"Restructuring Plan"	the debts/bankruptcy restructuring of the six Hongye Chemicals Enterprises in accordance with the restructuring proposal approved by the Intermediate People's Court of Heze City, Shandong Province
"Restructuring Reference Date"	the date on which the judgment regarding the consolidation and restructuring of six Hongye Chemicals Enterprises and the remaining 23 Hongye Group Companies ((2018) Lu 17 Po No. 6) was made by the Intermediate People's Court of Heze, Shandong, being September 28, 2018
"Risun Chemicals"	Risun Group Limited (旭陽集團有限公司) (formerly known as Risun Chemicals Limited (旭陽化工有限公司)), a limited liability company established in the PRC on January 8, 2010 and an indirect wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	the ordinary shares of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Shares
"Shunri Xinze"	Wuhu Shunri Xinze Equity Investment Partnership (LP) (蕪湖順日信澤股權投資合夥企業(有限合夥)), a limited partnership incorporated in the PRC on July 24, 2019
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group"	Shunri Xinze and the six Hongye Chemicals Enterprises
"Texson"	Texson Limited (泰克森有限公司), a company incorporated in the BVI on February 19, 2004 and wholly-owned by Mr. Yang Xuegang, one of the controlling shareholders of the Company
"Transaction"	the acquisition of all the GP Interests and LP Interests in Shunri Xinze from the Cinda Parties by the Group

"Transaction Completion Date"	the date on which the Cinda Parties complete the transfer of all the LP Interests and GP Interests in Shunri Xinze to Risun Chemicals and/or the entities designated by Risun Chemicals in accordance with the Interests Transfer Agreement
"Transaction Documents"	the Interests Transfer Agreement, the Guarantee Agreement and the Debt Accession Agreement
"Transfer Price"	the price to be paid to the Cinda Parties by Risun Chemicals for acquiring LP Interests and GP Interests under the Interests Transfer Agreement
"Transitional Period"	the period from and including the First Completion Date to the Transaction Completion Date
"Yongzhi Chemical"	Shandong Yongzhi Chemical Co., Ltd. (山東勇智化工有限公司), a limited liability company established in the PRC on December 15, 2010
"%"	percent

In this circular, the English names of the PRC entities are translation of their Chinese names and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

China Risun Group Limited
中國旭陽集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1907)

Executive Directors:
Mr. Yang Xuegang
(Chairman and Chief Executive Officer)
Mr. Zhang Yingwei
Mr. Han Qinliang
Mr. Wang Fengshan
Mr. Wang Nianping
Mr. Yang Lu

Independent Non-executive Directors:
Mr. Kang Woon
Mr. Yu Kwok Kuen Harry
Mr. Wang Yinping

Registered Office:
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Suite 2001, 20/F, Sino Plaza
255 Gloucester Road
Causeway Bay
Hong Kong

December 8, 2020

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF PARTNERSHIP INTERESTS IN SHUNRI XINZE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

References are made to (i) the announcement of the Company dated September 12, 2019 in relation to the cooperation project between the Group and the Cinda Parties in respect of the six Hongye Chemicals Enterprises' bankruptcy restructuring, and (ii) the announcement of the Company dated October 18, 2020 in connection with the Transaction.

Since July 2019, the Group has been providing entrusted operations management services for the six Hongye Chemicals Enterprises, and has been fully responsible for the production management and operation of these companies. On October 16, 2020, Risun Chemicals, an indirect wholly-owned subsidiary of the Company, entered into the Interests Transfer Agreement with China Cinda and Cinda Capital, pursuant to which Risun Chemicals will acquire all LP Interests and GP Interests in Shunri Xinze in stages; and at the same time, the parties have also agreed on specific arrangements for the management and operation of Shunri Xinze during the Transitional Period. As part of the credit enhancement arrangements for the Transaction, the Company has entered into the Guarantee Agreement and the six Hongye Chemicals Enterprises have each entered into the Debt Accession Agreement with the Cinda Parties, respectively. Shunri Xinze and the six Hongye Chemicals Enterprises will become subsidiaries of the Company upon the First Completion.

The purpose of this circular is to provide the Shareholders with information in respect of the Transaction and other information required by the Listing Rules.

II. THE TRANSACTION

(I) Transaction Documents

The Group, the Cinda Parties and the Target Group have entered into the Transaction Documents for the Transaction, including the Interests Transfer Agreement, the Guarantee Agreement and the Debt Accession Agreement. The salient terms of the Transaction Documents are as follows:

1. Interests Transfer Agreement

Signing Date and Effective Date:	The Interests Transfer Agreement was signed and sealed by the representatives of the parties on October 16, 2020, but it will only become effective when the Transaction is approved by the Shareholders at the EGM.
Parties:	Risun Chemicals (as the buyer), China Cinda (as a transferor), Cinda Capital (as a transferor) and Shunri Xinze (as the target enterprise)

Interests Transfer and Transfer Price: The Cinda Parties will transfer the interests in Shunri Xinze to Risun Chemicals in stages in accordance with the terms of Interests Transfer Agreement. Risun Chemicals will pay the entire Transfer Price in installments, with the last installment to be paid on or before September 15, 2024. Details are as follows:

Transferor	**Interests held in Shunri Xinze**	**Paid-in capital interests** *(in RMB)*	**Corresponding Transfer Price** *(in RMB)*	**Payment amount and time**
China Cinda	LP Interests	RMB4.199 billion	RMB4.85 billion	(i) On the effective date of the Interests Transfer Agreement: RMB1.35 billion, which will be converted from Entrusted Operations Deposits and Acquisition Deposits; (ii) Within three working days after the effective date of Interests Transfer Agreement: RMB350 million; (iii) On September 15, 2023: RMB1.575 billion; and (iv) On or before September 15, 2024: RMB1.575 billion.
Cinda Capital	GP Interests	RMB1 million	RMB1 million	On or before September 15, 2024: RMB1 million.
	Total	RMB4.2 billion	RMB4.851 billion	

The Transfer Price was determined after negotiations between the Group and Cinda Parties at arm's length and with reference to the valuation as at June 30, 2020 (i.e. RMB4.5 billion) of all GP Interests and LP Interests of Shunri Xinze by an independent third-party evaluation institution, which was determined using a market approach.

The Company expects to pay the Transfer Price through internal resources and bank loans.

Payment Arrangements for the Compensation:	Risun Chemicals shall pay the Compensation to China Cinda, comprising a one-off payment of RMB63 million to be paid before December 31, 2020 and subsequent payments on a quarterly basis at a rate of 10% per annum for the actual outstanding amount of the Deferred Debts based on the formula below. The maximum aggregate amount of the Compensation will not exceed RMB1.17 billion.

Base amount x (annual interest rate/360) x number of days during the period

Where:

(i) the "*base amount*" shall be the actual outstanding amount of the Deferred Debts from time to time;

(ii) the "*annual interest rate*" shall be 10%, which was agreed after arm's length negotiations between the Group and the Cinda Parties taking in consideration the factors stated below; and

(iii) the "*number of days during the period*" shall be the number of calendar days during which the Compensation is accrued.

The Compensation was agreed after arm's length negotiations between the Group and the Cinda Parties, having considered (i) the initial costs and expenses incurred by the Cinda Parties in relation to the bankruptcy restructuring of the six Hongye Chemicals Enterprises; (ii) the Group's highest annual rates of 8% and 8.86% of capitalized finance costs in 2019 and 2018 respectively and interest rates adopted in other M&A transactions in the market; (iii) the absence of security over any asset or equity of Risun Chemicals requested by the Cinda Parties at the time of entering into the Interests Transfer Agreement; and (iv) potential synergies effects to be created from the addition of the Target Group to the Company. In particular, the RMB63 million one-off payment was agreed after further considering (i) the base amount of the Transfer Price of RMB4.85 billion; (ii) the Acquisition Deposits of RMB675 million and the Entrusted Operations Deposits of RMB675 million which have already been paid by the Group; (iii) the length of period from the signing of the Interests Transfer Agreement up to the end of 2020; and (iv) the economic benefits enjoyed by the Group from the provision of operation management services to the six Hongye Chemicals Enterprises since July 2019.

The Company considers the terms of Compensation fair and reasonable due to the following reasons:

The Company's ability to acquire the Hongye Chemicals Enterprises is only possible because of Cinda Parties' participation in the restructuring of the Hongye Group

The Cinda Parties' participation in the restructuring process of Hongye Group Companies can be traced back to August 2018. The debt restructuring process is a specialized and protracted process requiring the continued involvement of personnel with insolvency expertise, involving various time-consuming court processes and negotiations with relevant stakeholders including various governmental authorities as well as the then creditors of the Hongye Group Companies. The Company also notes that the debt restructuring process had to be conducted in relation to all Hongye Group Companies, which comprised 23 other entities on top of the six Hongye Chemicals Enterprises. The Company itself does not have the resources or the expertise to conduct the debt restructuring process of Hongye Group Companies by itself, and therefore, without the Cinda Parties' involvement, the Company would not have been able to acquire the Hongye Chemicals Enterprises at all.

The RMB4.5 billion valuation does not reflect the Cinda Parties' contribution to the restructuring of the Hongye Chemicals Enterprises

The Cinda Parties established Shunri Xinze on July 24, 2019 and injected RMB4.2 billion into Shunri Xinze as capital in September 2019. In addition to the capital injection to Shunri Xinze, the Cinda Parties also incurred other substantial costs in the restructuring process of the Hongye Group Companies, including but not limited to legal fees and valuation fees etc. As described above, the Company considers that without the involvement of the Cinda Parties, the Company would not have been able to clear the debts of the six Hongye Chemicals Enterprises through the restructuring processes.

The Transfer Price of RMB4.85 billion was determined by reference to the valuation of RMB4.5 billion as at June 30, 2020 of all GP Interests and LP Interests in Shunri Xinze conducted by JLL, an independent third-party valuer. However, this valuation only reflects the value of the equity interest of Shunri Xinze as at June 30, 2020, and does not reflect any of the investments, efforts and risk exposures of the Cinda Parties in the restructuring process of the six Hongye Chemicals Enterprises. The Company is of the view that the Compensation, in light of the background of the six Hongye Chemicals Enterprises and taking into consideration the arrangements of the Transaction as a whole, represents a fair and reasonable return for the Cinda Parties' investments in the six Hongye Chemicals Enterprises, and the basis upon which the Company has been able to reach a commercial agreement with the Cinda Parties.

Economic benefits enjoyed by the Group pre-completion

Since July 2019, Risun Chemicals has been entrusted with the provision of operation management services to the six Hongye Chemicals Enterprises, in order to ensure continuing production and operation of each of the six Hongye Chemicals Enterprises. The Group has been collecting services fees based on certain percentage of a number of factors such as the stationed staff's labor cost, service fees, production volume and sales volume. The provision of the operation management services is part of the cooperation with the Cinda Parties in relation to the acquisition of the six Hongye Chemicals Enterprises, and in reaching the commercial agreement with the Cinda Parties on the final terms of the Transaction, in particular, the payment terms of the Compensation, the Company took into account the economic benefits enjoyed by the Group arising from the provision of operation management services since July 2019.

Economic benefits from the Target Group

Upon the First Completion, although the Cinda Parties would still hold 70% of the interests in the Target Group, they would not enjoy any additional economic benefits generated from the operations of the Target Group as all distributions from the Target Group during the Transitional Period would be used to settle the Fees Payable owed by the Group to the Cinda Parties under the Interests Transfer Agreement, including the Transfer Price, and upon full payment of all the Fees Payable under the Interests Transfer Agreement, the Target Group would become wholly-owned by the Group. Therefore, upon the First Completion, despite the fact that the Cinda Parties would still hold 70% interests in the Target Group, the economic benefits arising from the Target Group, save to the extent used to settle the Fees Payable, would be retained within the Target Group which would eventually become wholly-owned by the Group.

Actual Compensation payable is expected to be lower

According to the Interests Transfer Agreement, starting from the effective date of the Interests Transfer Agreement, the Group may repay all or part of the Deferred Debts before the relevant due dates from time to time as it sees fit, and the distributable profits of Shunri Xinze shall be first distributed to the Cinda Parties to settle the Fees Payable owed by the Group to the Cinda Parties under the Interests Transfer Agreement, including the Transfer Price. The Compensation shall be reduced accordingly when any part of the Deferred Debts has been repaid prior to the relevant due dates.

The maximum aggregate Compensation of not exceeding RMB1.17 billion to be paid by the Group stated above was based on the worst case scenario that all Deferred Debts would be paid on the relevant due dates. It is expected that part of the Deferred Debts would be repaid before the relevant due dates by (i) utilizing financing facilities available to the Company with lower interest rates such as bank borrowings, and (ii) the distributable profits of Shunri Xinze generated from the operations of the six Hongye Chemicals Enterprises. Therefore, the actual amount of the Compensation to be paid by the Group is expected to be substantially lower than the stated maximum of RMB1.17 billion. However, the Company is unable to provide a quantitative estimation of any early repayment plan of the Deferred Debts at the moment as the timing and extent of such early repayment, if any, would depend on various factors which the Company is unable to predict with sufficient certainty at the moment, including but not limited to (i) the terms of unutilized financing facilities available to the Company in the future, (ii) the future capital structure and cashflow of the Company, and (iii) the operations and financial results of the six Hongye Chemicals Enterprises. The Company will consider its options to repay the Deferred Debts prior to the relevant due dates from time to time taking into consideration the financial position of the Company and the interests of the Shareholders as a whole.

Completion and Relevant Arrangements: Within 30 working days of the First Completion Date, 30% of the LP Interests shall be transferred from China Cinda to Risun Chemicals; within 30 working days of Risun Chemicals completing the payment of all Fees Payable under the Interests Transfer Agreement (including the Transfer Price, Compensation and Remuneration of Managing Partner), the remaining 69.98% LP Interests and 0.02% GP Interests held by China Cinda and Cinda Capital, respectively, shall be transferred to Risun Chemicals.

The Transaction shall be regarded as being completed upon completion of the registration procedures in respect the full transfer of LP interests and all GP interests.

Arrangements during the Transitional Period:	During the Transitional Period, Risun Chemicals and the Cinda Parties will jointly manage and operate Shunri Xinze. The parties will enter into a partnership agreement upon the Interests Transfer Agreement taking effect, to govern the operation and management of Shunri Xinze during the Transitional Period, with the key terms set out as follows:

Purpose of the partnership

The purpose of Shunri Xinze is to hold the equity interests in the six Hongye Chemicals Enterprises. Shunri Xinze is not engaged in any other businesses.

Managing Partner

Cinda Capital will act as the managing partner of Shunri Xinze.

Risun Chemicals will pay, on an annual basis, the Remuneration of Managing Partner, which is calculated based on the actual outstanding amount of the Deferred Debts under the Interests Transfer Agreement at a rate of 0.1% per annum for a period from September 2019 to the date of fulfillment of all the payment obligations by Risun Chemicals, and the total amount is expected not to exceed RMB11.10 million. The Remuneration of Managing Partner is determined by reference to the market standard of partnership enterprises of the same type.

Investment Decision-Making Committee

The Investment Decision-Making Committee shall be comprised of five members. Risun Chemicals shall be entitled to appoint three members, while each of China Cinda and Cinda Capital shall be entitled to appoint one member. Each member of the Investment Decision-Making Committee shall have one vote. Certain customary reserved matters shall be subject to the unanimous consent of the Investment Decision-Making Committee, such as significant investments or disposal of assets of any of the six Hongye Chemicals Enterprises. Other general decision-making matters shall be subject to the approval of more than one half of the members of the Investment Decision-Making Committee, such as decisions on appointment of directors, general managers and legal representatives of the Hongye Chemicals Enterprise(s).

Profits Distribution and Loss Sharing

Before settlement of the Fees Payable in full by Risun Chemicals, and in the absence of any default by Risun Chemicals, the distributable profits of Shunri Xinze shall be distributed as follows:

(1) to China Cinda until the distribution amount received by China Cinda equals to the unpaid amount owed by Risun Chemicals to China Cinda under the Interests Transfer Agreement.

(2) to Cinda Capital until the distribution amount received by Cinda Capital equals to the unpaid amount owed by Risun Chemicals to Cinda Capital under the Interests Transfer Agreement, which must not exceed the aggregate of the paid-up capital contributions by Cinda Capital (i.e. RMB1 million) and the then outstanding Remuneration of Managing Partner.

(3) to Risun Chemicals.

Upon full payment of the Fees Payable, all profits of Shunri Xinze shall be distributed to Risun Chemicals.

Credit Enhancement Arrangements:

1. The Cinda Parties shall have the right to require the six Hongye Chemicals Enterprises to pledge the land, property and core equipment assets in which it has clear property rights as security for the Fees Payable by Risun Chemicals.

2. The Cinda Parties shall have the right to require Shunri Xinze to pledge its equity interests in the six Hongye Chemicals Enterprises as security for the Fees Payable by Risun Chemicals.

   As of the Latest Practicable Date, the Cinda Parties have not requested for security over any assets or equity from either Risun Chemicals or the six Hongye Chemicals Enterprises.

3. The Company entered into the Guarantee Agreement, and the six Hongye Chemicals Enterprises entered into the Debt Accession Agreement, with the Cinda Parties on October 16, 2020. Please refer to the sections headed "– 2. Guarantee Agreement" and "– 3. Debt Accession Agreement" below for details.

Undertakings and Guarantee: Risun Chemicals has provided the Cinda Parties with certain customary representations and warranties, including but not limited to:

(1) an ability to maintain the debt to asset ratio of the Company and Risun Chemicals below an agreed threshold; and

(2) the 30% LP Interests must not be disposed of or pledged as security, unless permitted by China Cinda.

Liability for Breach of Contract: China Cinda is entitled to certain remedies including penalty interest, enforcement of security and termination of the Interests Transfer Agreement in the event of any default in the timely payment of the Fees Payable by Risun Chemicals, the six Hongye Chemicals Enterprises or the Company.

2. The Guarantee Agreement

Signing Date and Effective Date: The Guarantee Agreement is signed and sealed by the representatives of the parties on October 16, 2020, but it will only become effective when the Interests Transfer Agreement becomes effective.

Parties: The Company (as the guarantor), China Cinda (as a creditor) and Cinda Capital (as a creditor)

Extent of the Guarantee: The Company agreed to provide a joint liability guarantee for Risun Chemicals' payment obligations under the Interests Transfer Agreement.

Guarantee Term: A term from the effective date of the Guarantee Agreement to the date falling three years after the expiry of the payment obligations of Risun Chemicals as stipulated in the Interests Transfer Agreement.

Undertakings and Guarantee:	The Company has provided the Cinda Parties with certain customary representations and warranties including restrictive covenants on the reduction of share capital and corporate actions which may materially impact its ability to satisfy its obligations under the Guarantee Agreement.

3. Debt Accession Agreement

Signing Date and Effective Date:	The Debt Accession Agreement is signed and sealed by the representatives of the parties on October 16, 2020, but it will only become effective when the Interests Transfer Agreement becomes effective.
Parties:	China Cinda (as a creditor), Cinda Capital (as a creditor) and the six Hongye Chemicals Enterprises (as joint debtors)
Debt Accession:	The six Hongye Chemicals Enterprises will be the joint debtors of Risun Chemicals and assume joint liability for Risun Chemicals' payment obligations under the Interests Transfer Agreement.

(II) Reasons for and Benefits of the Transaction

Shunri Xinze beneficially holds 100% of the equity interests in the six Hongye Chemicals Enterprises. The six Hongye Chemicals Enterprises are upstream and downstream enterprises that are mainly engaged in the production of coke and coking chemicals and refined chemical products. Since July 2019, the Group has been providing entrusted operations management services for the six Hongye Chemicals Enterprises and has been fully responsible for their production, management and operation.

Given the six Hongye Chemicals Enterprises' production capacity, scale of operation and the market share in their respective regions and considering the Group's expansion plan, the Company is of the view that the Transaction is conducive to the future business expansion of the Company.

1) Capture the potential growth of coke and refined chemicals market

The Group is an integrated coke, coking chemical and refined chemical producer and supplier in China. The Group planned to explore market opportunities to provide operations management services and expand our business through acquisitions and joint ventures. The Transaction is in line with the Group's expansion strategy to capture the potential growth of coke and refined chemicals market and can strengthen the Group's leading position in the market.

2) Expand geographical location

The Group is mainly based in Hebei province of China and the Target Group is based in the Shandong province of China. Upon completion of the Transaction, the Group will be able to expand its geographical reach. Shandong province is one of the major sales locations of the Group where many of its customers are based. Currently, the sales network of the Group covers most provinces of China and the majority of the Group's products are sold in northern and eastern China. The Group can sell the products manufactured by the six Hongye Chemicals Enterprises to the Group's customers directly from the new production locations which can lower the transportation costs and increase the Group's competitive advantages.

3) Potential synergy with the Group's existing business

Currently, the Group sources raw materials, mainly coking coal, in scale in order to lower the production costs. Upon completion of the Transaction and together with expansion of the operations and management services business, the Group can further procure raw materials by economics of scale and enlarge its price spread between its products and its raw materials. This can achieve a higher gross profit margin for the coke products as well as the refined chemical products.

Moreover, the Group currently has an annual production capacity of 150,000 tons of caprolactam in its Cangzhou Production Base. The Group's annual production capacity of caprolactam is expected to increased to 350,000 tons by consolidating the annual production capacities of the six Hongye Chemicals Enterprises.

4) Expand brand name

Upon completion, the Transaction will be the first bankruptcy restructuring project in the history of coke industry in Shandong province. By operating two green factories recognized by the Ministry of Industry and Information Technology of China, the Group can demonstrate through the Transaction how to promote industry consolidation and improve coking enterprises by enhancing outdated production facilities. It can further promote the Group's image by taking a leading role in consolidating the standard of environmental protection in the coke industry.

After taking the above reasons into account, the Directors are of the view that the Transaction is conducted on normal commercial terms, and the terms of the Transaction Documents are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(III) Information on the Target Group

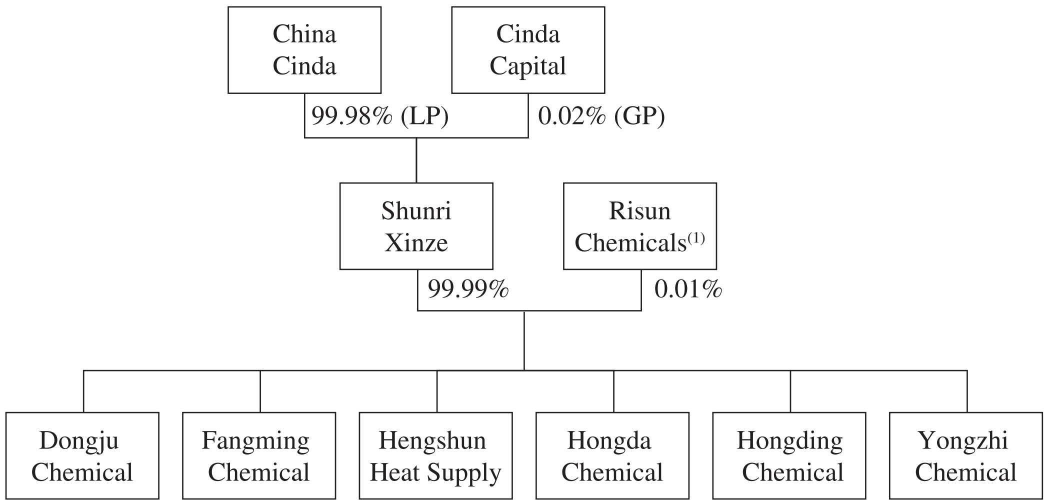
1. Shareholding Structure of the Target Group

The six Hongye Chemicals Enterprises previously were sizable enterprises with a complete industrial chain under the chemical sector of Hongye Group, and they are principally engaged in the production of petrochemical products, coke and coking chemicals as well as steam supply. Their plants are located in Shandong Dongming Engineering Plastic Industrial Park (山東省東明工程塑料產業園) and Shandong Yuncheng Chemical Industrial Park (山東省鄆城化工產業園). The annual production capacity of the six Hongye Chemicals Enterprises' major equipment includes 1,200,000 tons of coke and coking chemicals, 200,000 tons of caprolactam, 80,000 tons of nylon 6 slices, 230,000 tons of vitriol, 260,000 tons of hydrogen peroxide and 150,000 tons of synthesis ammonia.

In September 2018, the Intermediate People's Court of Heze City, Shandong Province ruled that 29 Hongye Group Companies, including the six Hongye Chemicals Enterprises, shall undergo merger and bankruptcy restructuring. The Cinda Parties, as the specified entities designated by the sole restructuring investor, an Independent Third Party, to participate in the bankruptcy restructuring investment, carried out bankruptcy restructuring of the Hongye Group Companies. As of the Latest Practicable Date, the bankruptcy restructuring proposal has been fully executed. Shunri Xinze was jointly established by China Cinda (as the sole limited partner) and Cinda Capital (as the sole general partner) under PRC law on July 24, 2019 for the exclusive purpose of taking over the equity interests in the six Hongye Chemicals Enterprises.

On September 16, 2019, Shunri Xinze entered into a restructuring investment agreement with the sole restructuring investor, bankruptcy administrators and the six Hongye Chemicals Enterprises, and was appointed as a restructuring investor for the six Hongye Chemicals Enterprises. On September 18, 2019, Shunri Xinze paid a restructuring price of RMB4.2 billion to the restructuring investors to acquire all the equity interests in the six Hongye Chemicals Enterprises. As of the Latest Practicable Date, Shunri Xinze beneficially owns 100% of the equity interests in each of the six Hongye Chemicals Enterprises.

The following chart depicts the shareholding structure of the Target Group as of the Latest Practicable Date:

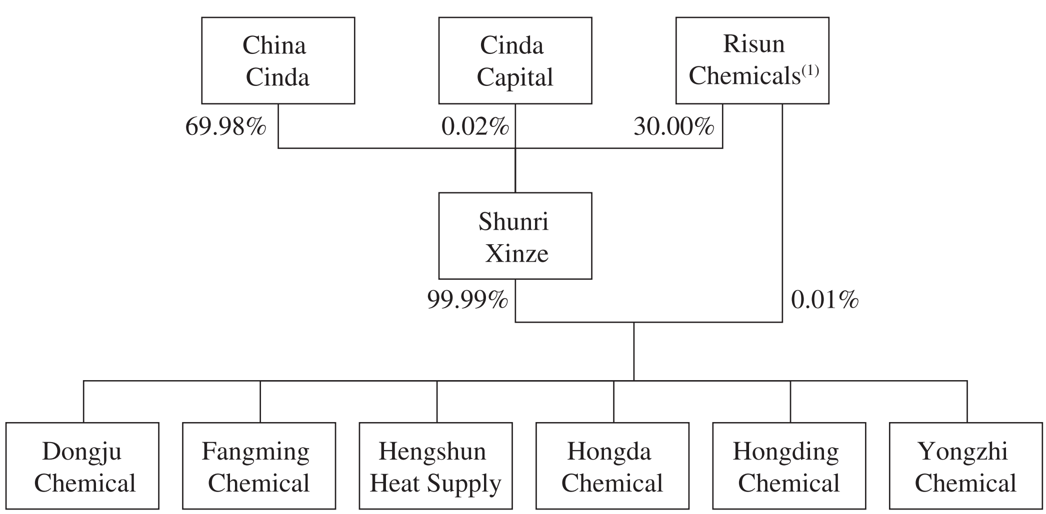


Note:

1. Risun Chemicals is holding the 0.01% equity interests in each of the six Hongye Chemicals Enterprises for Shunri Xinze on trust.

Upon the First Completion and the completion of the Transaction, Risun Chemicals will hold the interests in the Target Group. The following charts depict the shareholding structure of the Target Group upon the First Completion and the completion of the Transaction, respectively:

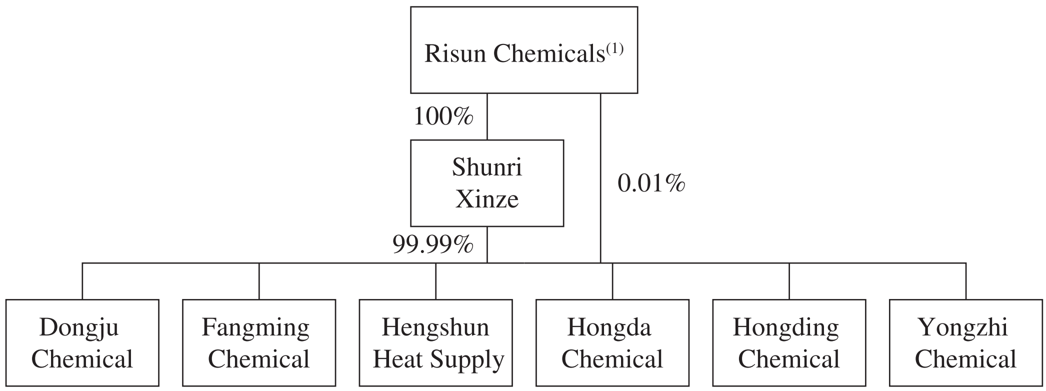
Upon the First Completion



Note:

(1) Risun Chemicals is holding the 0.01% equity interests in each of the six Hongye Chemicals Enterprises for Shunri Xinze on trust.

Upon completion of the Transaction



Note:

(1) The trust holding arrangements between Shunri Xinze and Risun Chemicals will terminate upon completion of the Transaction.

2. *Financial Information of the Target Group*

The following financial information of each companies within the Target Group is prepared based on the audited financial statements of each company, for the three years ended December 31, 2019 and the six months ended June 30, 2020, which is prepared in accordance with IFRSs.

As Shunri Xinze was incorporated on July 24, 2019 and it gained the control over the six Hongye Chemicals Enterprises on September 20, 2019, it began to consolidate the financial results of the six Hongye Chemicals Enterprises into the its consolidated statement of profit or loss since September 20, 2019. As such, the financial results of Shunri Xinze for the period from July 24, 2019 to December 31, 2019 and the period from January 1, 2020 to June 30, 2020 reflect the consolidated financial results of the Target Group, while the financial results of six Hongye Chemicals Enterprises for the three years ended December 31, 2017, 2018 and 2019 and the period from January 1, 2020 to June 30, 2020 reflect the financial results of each Hongye Chemicals Enterprise on a standalone basis.

The restructuring debts of Shunri Xinze as of December 31, 2019 and June 30, 2020 were RMB534.2 million and RMB242.2 million respectively, which were determined based on the valuation performed by JLL in connection with the purchase price allocation when Shunri Xinze acquired 100% of the equity interests in the six Hongye Chemicals Enterprises on September 20, 2019 taking into account the Restructuring Plan. Such adjustment approach has been adopted by Shunri Xinze since the acquisition of the six Hongye Chemicals Enterprises by Shunri Xinze in September 2019. As of June 30, 2020, as disclosed in Note 19 of the accountants' report of Shunri Xinze, the outstanding restructuring debts and balance of equity funds to be used to settle such debts amounted to RMB242.2 million.

The restructuring debts of the six Hongye Chemicals Enterprises as shown in their respective standalone financial statements were based on the book value of the restructuring debts as of the relevant dates without taking into account the Restructuring Plan, since the relevant PRC court only affirmed the completion of the Restructuring Plan on September 27, 2020. As such, the restructuring debts as shown in the financial statements of the six Hongye Chemicals Enterprises do not reflect the actual amounts due to debtors in accordance with the Restructuring Plan and are not consistent with the aggregate restructuring debts as shown in the accountants' report of Shunri Xinze. After September 27, 2020, as the relevant PRC court affirmed the completion of the Restructuring Plan and the six Hongye Chemicals Enterprises derecognized the restructuring debts waived by the creditors, the aggregate amount of restructuring debts shown in the financial statements of the six Hongye Chemicals Enterprises would equal the amount shown in the consolidated financial statements of Shunri Xinze.

1) Shunri Xinze (on a consolidated basis)

As of June 30, 2020, the total assets and net assets of Shunri Xinze amounted to RMB5.66 billion and RMB4.27 billion respectively. For the period from July 24, 2019 to December 31, 2019 and the six months ended June 30, 2020, the audited net profit/(loss) before and after taxation and non-recurring items of Shunri Xinze are as follows:

	For the period from July 24, 2019 to December 31, 2019 *(RMB'000)*	**For the six months ended June 30, 2020** *(RMB'000)*
Audited net loss (before taxation and non-recurring items)	(111,418)	(132,390)
Audited net profit/(loss) (after taxation and non-recurring items)	202,769	(131,338)

Note: Non-recurring items represented other gains and losses together with impairment losses under expected credit loss, net of reversal.

2) Dongju Chemical (on a standalone basis)

As of June 30, 2020, the total assets and net liabilities of Dongju Chemical amounted to RMB1,410.2 million and RMB1,038.9 million respectively. For the two years ended December 31, 2018, 2019 and the six months ended June 30, 2020, the net profit/(loss) before and after taxation and non-recurring items of Dongju Chemical are as follows:

	For the year ended December 31, 2018 *(RMB'000)*	**For the year ended December 31, 2019** *(RMB'000)*	**For the six months ended June 30, 2020** *(RMB'000)*
Audited net profit/(loss) (before taxation and non-recurring items)	(77,332)	(233,101)	(25,132)
Audited net profit/(loss) (after taxation and non-recurring items)	(77,323)	(388,551)	(24,943)

Note: Non-recurring items represented other gains and losses together with impairment losses under expected credit loss, net of reversal.

3) Fangming Chemical (on a standalone basis)

As of June 30, 2020, the total assets and net liabilities of Fangming Chemical amounted to RMB971.6 million and RMB1,666.4 million respectively. For the two years ended December 31, 2018, 2019 and the six months ended June 30, 2020, the net profit/(loss) before and after taxation and non-recurring items of Fangming Chemical are as follows:

	For the year ended December 31, 2018 *(RMB'000)*	**For the year ended December 31, 2019** *(RMB'000)*	**For the six months ended June 30, 2020** *(RMB'000)*
Audited net profit/(loss) (before taxation and non-recurring items)	(112,633)	(443,415)	(59,983)
Audited net profit/(loss) (after taxation and non-recurring items)	(179,026)	(511,763)	(49,966)

Note: Non-recurring items represented other gains and losses together with impairment losses under expected credit loss, net of reversal.

4) Hengshun Heat Supply (on a standalone basis)

As of June 30, 2020, the total assets and net liabilities of Hengshun Heat Supply amounted to RMB254.6 million and RMB117.8 million respectively. For the two years ended December 31, 2018, 2019 and the six months ended June 30, 2020, the net profit/(loss) before and after taxation and non-recurring items of Hengshun Heat Supply are as follows:

	For the year ended December 31, 2018 *(RMB'000)*	**For the year ended December 31, 2019** *(RMB'000)*	**For the six months ended June 30, 2020** *(RMB'000)*
Audited net profit/(loss) (before taxation and non-recurring items)	(9,194)	(136,911)	2,494
Audited net profit/(loss) (after taxation and non-recurring items)	(24,459)	(145,542)	1,871

Note: Non-recurring items represented other gains and losses together with impairment losses under expected credit loss, net of reversal.

5) Hongda Chemical (on a standalone basis)

As of June 30, 2020, the total assets and net assets of Hongda Chemical amounted to RMB2,264.9 million and RMB120.3 million respectively. For the two years ended December 31, 2018, 2019 and the six months ended June 30, 2020, the net profit/(loss) before and after taxation and non-recurring items of Hongda Chemical are as follows:

	For the year ended December 31, 2018 *(RMB'000)*	**For the year ended December 31, 2019** *(RMB'000)*	**For the six months ended June 30, 2020** *(RMB'000)*
Audited net profit/(loss) (before taxation and non-recurring items)	(76,596)	(993,255)	44,374
Audited net profit/(loss) (after taxation and non-recurring items)	(77,146)	(1,055,283)	29,335

Note: Non-recurring items represented other gains and losses together with impairment losses under expected credit loss, net of reversal.

6) Hongding Chemical (on a standalone basis)

As of June 30, 2020, the total assets and net assets of Hongding Chemical amounted to RMB395.7 million and RMB73.6 million respectively. For the two years ended December 31, 2018, 2019 and the six months ended June 30, 2020, the net profit/(loss) before and after taxation and non-recurring items of Hongding Chemical are as follows:

	For the year ended December 31, 2018 *(RMB'000)*	For the year ended December 31, 2019 *(RMB'000)*	For the six months ended June 30, 2020 *(RMB'000)*
Audited net profit/(loss) (before taxation and non-recurring items)	(100,540)	(340,317)	(18,283)
Audited net profit/(loss) (after taxation and non-recurring items)	(100,533)	(358,041)	(18,430)

Note: Non-recurring items represented other gains and losses together with impairment losses under expected credit loss, net of reversal.

7) Yongzhi Chemical (on a standalone basis)

As of June 30, 2020, the total assets and net assets of Yongzhi Chemical amounted to RMB825.9 million and RMB225.0 million respectively. For the two years ended December 31, 2018, 2019 and the six months ended June 30, 2020, the net profit/(loss) before and after taxation and non-recurring items of Yongzhi Chemical are as follows:

	For the year ended December 31, 2018 *(RMB'000)*	For the year ended December 31, 2019 *(RMB'000)*	For the six months ended June 30, 2020 *(RMB'000)*
Audited net profit/(loss) (before taxation and non-recurring items)	83,655	(288,901)	(45,100)
Audited net profit/(loss) (after taxation and non-recurring items)	83,678	(298,773)	(45,073)

Note: Non-recurring items represented other gains and losses together with impairment losses under expected credit loss, net of reversal.

(IV) Implications under the Listing Rules

As the highest applicable percentage ratio is higher than 25% but lower than 100%, the Transaction constitutes a major transaction of the Company and shall be subject to the provisions on the reporting, announcement, circular to Shareholders and Shareholders' approvals under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholders have any material interest in the Transaction which is different from other Shareholders as of the Latest Practicable Date. Therefore, no Shareholders are required to abstain from voting if the Company were to convene a general meeting for the approval of the Transaction.

It has come to the Directors' notice that the Target Group's reporting accountants issued disclaimer opinions in the accountants' reports of the six Hongye Chemicals Enterprises for the three years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020 for the reason that the reporting accountants are unable to carry out necessary procedures to obtain sufficient appropriate audit evidence for certain items and disclosures included in the financial statements of the six Hongye Chemicals Enterprises for the years ended December 31, 2017, 2018 and 2019 and six months ended June 30, 2020, and issued unqualified opinion in the accountants' report of Shunri Xinze for the periods ended December 31, 2019 and June 30, 2020. The Company considered that the disclaimer opinions in the accountants' reports of the six Hongye Chemicals Enterprises will not have any impact to the audit opinion of the consolidated financial statements of the Company for the year ending December 31, 2020, based on the unqualified opinion in the accountants' report of Shunri Xinze.

Nevertheless, it is advised by the PRC legal adviser of the Company that, in accordance with the ruling of Intermediate People's Court of Heze City, Shandong Province, all debts and liabilities incurred by the six Hongye Chemicals Enterprises prior to the Restructuring Reference Date (namely, September 28, 2018) shall be paid and settled by the bankruptcy administrators by using the equity fund of RMB4.2 billion injected by Shunri Xinze in September 2019, and the six Hongye Chemicals Enterprises will only be responsible for the debts and liabilities incurred after the Restructuring Reference Date. Therefore, when considering the Transaction, the Company made its decision mainly based on due diligence it had performed over the Target Group, the valuation of the Target Group as at June 30, 2020, the financial positions of the six Hongye Chemicals Enterprises as at June 30, 2020 and their financial performance and cash flows for the six months ended June 30, 2020.

As a result of the above-mentioned disclaimed accountants' reports and according to Rule 14.86 of the Listing Rules, the Company will hold the EGM to consider and, if thought fit, approve the Transaction.

(V) General Information

1. The Group

The Company is a leading integrated coke, coking chemical and refined chemical producer and supplier in China, with customers located in both China and overseas. The Group currently operates four production bases in Hebei Province, China. Risun Chemicals is an indirect wholly-owned subsidiary of the Company.

2. The Cinda Parties

China Cinda is a company listed on the Stock Exchange and the first financial asset management company approved by the State Council and established for the purpose of defusing financial risks effectively, maintaining the stability of financial system and promoting the reform and development of state-owned banks and enterprises, and its principal business includes distressed asset management, investment and asset management, as well as financial services.

Cinda Capital is a wholly-owned subsidiary of China Cinda, and its principal business is equity investment.

To the best of the Board's knowledge, information and belief and having made all reasonable enquiries, the Cinda Parties are not connected with the Group, and are not connected persons of the Company under the Listing Rules.

(VI) Financial Effects of the Acquisition

According to the Interests Transfer Agreement, upon the First Completion, the Company would be entitled to appoint 3 out of 5 members of the Investment Decision-Making Committee of Shunri Xinze, which is the governing body of Shunri Xinze. Most of the key operating matters of the Target Group, subject to certain customary reserved matters, can be approved by a majority of the members of the Investment Decision-Making Committee. Therefore, upon the First Completion, the Company will obtain control of the Target Group and the Target Group will become subsidiaries of the Company. The financial statement of the Target Group will be consolidated into the financial statements of the Group.

1. Assets and Liabilities

As detailed in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group in Appendix III to this circular, assuming the Transaction is completed as at June 30, 2020, the unaudited pro forma consolidated assets of the Enlarged Group will increase from RMB22,347.4 million to RMB26,381.2 million, the unaudited pro forma consolidated liabilities of the Enlarged Group will increase from RMB15,348.5 million to RMB19,394.7 million, and the net assets will decrease from RMB6,998.9 million to RMB6,986.6 million as a result of the Transaction.

2. Earnings

According to the Interests Transfer Agreement, the Cinda Parties only have contractual right under their 70% partnership interests to receive fixed payments from the Company determined based on the aggregate unpaid portion of the total consideration for 100% interests of the Target Group. Therefore, the Directors are of the view that this is a financing arrangement in substance, and hence the 70% partnership interests held by the Cinda Parties shall be accounted as financial liabilities. Upon the First Completion, all future financial results of the Target Group will be consolidated into the consolidated financial statements of the Group.

3. Valuation

The valuation report of the equity interests of the Target Group as at June 30, 2020 is set out in Appendix V to this circular.

III. EXTRAORDINARY GENERAL MEETING

The Company will convene and hold the EGM to consider and, if thought fit, approve the relevant resolution(s) in relation to the Transaction. The voting on the aforesaid resolution(s) to be proposed at the extraordinary general meeting will be conducted by way of poll.

A form of proxy for use at the EGM or any adjournment thereof is enclosed with this circular. Whether or not you are able to attend the EGM or any adjournment thereof, you are advised to complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof (for the purpose of the EGM, no later than December 21, 2020 at 10:00 a.m.). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

In the interest of all stakeholders' health and safety and in accordance with recent guidelines for prevention and control of the spread of COVID-19 (the "**Epidemic**"), the Company reminds all Shareholders that attendance in person at the EGM is not necessary for the purpose of exercising voting rights. By completing and returning the form of proxy attached to this circular, Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof should they so wish.

Shareholders attending the EGM shall pay attention to and comply with the relevant regulations and requirements regarding health declaration, quarantine and observation during the Epidemic prevention and control period as promulgated by the government authorities. The Company will strictly comply with the requirements regarding the Epidemic prevention and control stipulated by government authorities, and take relevant prevention and control measures including monitoring the temperatures of Shareholders attending the EGM under the guidance and supervision of relevant government authorities. Shareholders having a fever or other symptoms, not wearing a face mask as required, or failing to comply with the relevant regulations and requirements regarding the Epidemic prevention and control will not be allowed to enter the venue of the EGM.

IV. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any voting of Shareholders at a general meeting of the Company must be taken by poll. Accordingly, all the proposed resolutions will be voted on by way of poll at the EGM. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

V. RECOMMENDATION

Having considered the above-mentioned financial and trading prospect of the Enlarged Group after the completion and the benefits of the Transaction set out herein, the Board considers the terms of the Transaction Documents and the Transaction are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Transaction and the Transaction Documents.

VI. FURTHER INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully
By order of the Board
China Risun Group Limited
Mr. Yang Xuegang
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the three years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020 are set out in the Prospectus, the 2018 and 2019 annual reports and the 2020 interim report.

Quick links to the Prospectus, annual reports and interim report of the Company are set out below:

- Prospectus (refer to pages I-1 to I-115):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0228/ltn20190228029.pdf
  (English version)

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0228/ltn20190228030_c.pdf
  (Chinese version)

- Annual report of the Company for the year ended December 31, 2018 (refer to pages 129 to 274):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0430/ltn20190430848.pdf
  (English version)

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0430/ltn20190430849_c.pdf
  (Chinese version)

- Annual report of the Company for the year ended December 31, 2019 (refer to pages 138 to 294):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0512/2020051200405.pdf
  (English version)

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0512/2020051200406_c.pdf
  (Chinese version)

- Interim report of the Company for the six months ended June 30, 2020 (refer to pages from 25 to 56):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0930/2020093000131.pdf
  (English version)

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0930/2020093000132_c.pdf
  (Chinese version)

2. INDEBTEDNESS

2.1 Borrowings

At the close of business on October 31, 2020, the total outstanding bank and other borrowings of the Enlarged Group were approximately RMB9,757.4 million, details of which are set out below:

	As of October 31, 2020 *RMB in million* (Unaudited)
Bank loans	
Secured and guaranteed	3,195.5
Secured and unguaranteed	708.5
Unsecured and guaranteed	2,358.0
Unsecured and unguaranteed	271.4
Other loans	
Secured and guaranteed	946.2
Secured and unguaranteed	94.8
Unsecured and guaranteed	80.0
Unsecured and unguaranteed	100.0
Discounted bills financing	2,003.0
	9,757.4

As of October 31, 2020, the bank loans and other loans of approximately RMB3,904 million and RMB1,041 million, respectively, which were secured by property, plant and equipment, leasehold land, inventories, trade receivables or restricted bank deposits. Discounted bills financing of approximately RMB2,003 million were secured by bank acceptance bills.

As of October 31, 2020, bank loans and other loans of RMB5,553.5 million and RMB1,026.2 million, respectively, were guaranteed, and the remaining bank borrowings, other borrowings and discounted bills financing were unguaranteed.

2.2 Lease obligation

At the close of business on October 31, 2020, the Enlarged Group, as a lessee, has outstanding unpaid contractual lease payments for the remainder of the relevant lease terms amounting to were approximately RMB85.3 million, which are neither secured nor guaranteed.

2.3 Interest-bearing payables for construction in progress

At the close of business on October 31, 2020, the total interest-bearing payables for construction in progress of the Enlarged Group were approximately RMB119.2 million, which were unsecured and unguaranteed.

2.4 Guarantees and contingent liabilities

At the close of business on October 31, 2020, the Enlarged Group had provided guarantees to certain bank and other loans relating to loan facilities for a joint ventures of the Group, the outstanding balance of bank and other loans under these guarantees was RMB741.1 million.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables in the ordinary course of the business, as of October 31, 2020, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, recognised lease liabilities, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

After taking into account the resources currently available to the Enlarged Group, including internally generated funds, external borrowings and the currently available banking facilities, in the absence of unforeseen circumstances, the Directors are of the opinion that the Enlarged Group will have sufficient working capital to meet its present requirements for the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group's vertically integrated business model and its experience of almost 25 years in the coal chemicals industry production chain allow the Group to tap into the downstream refined chemicals markets. With an aim of strengthening its leading position as a global coke and refined chemicals producer and supplier, the Group will make use of the establishment of new subsidiaries/joint ventures, acquisition of existing coke and refined chemicals producers, together with provision of operation management services to third parties, to achieve its aim.

Looking forward, the Group will continue increasing its market share especially in coke production by three different ways stated above. It is foreseeable in the next five years that the annual coke production of the Group will rise considerably. For the refined chemicals, the Group is also examining the whole refined chemicals production chain to further develop high potential products e.g. caprolactam. There are different concerns including but not limited to whether the Group can take the leading position in that refined chemicals market globally, whether that refined chemicals consumption market in PRC heavily relies on importing from overseas and whether the technology and know-how involved in the production can keep us outperform the other producers.

Besides, the Group will focus on the pure hydrogen production and utilisation where the production bases are located at. It is believed that as a type of clean energy in 21st century, hydrogen is one of the major strategic directions for the PRC's energy transformation, and the Group has huge advantage in refining the coking coal which contains hydrogen chemical element.

The following is the text of a report set out on pages IIA-1 to IIA-47, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF WUHU SHUNRI XINZE EQUITY INVESTMENT PARTNERSHIP (LP) TO THE DIRECTORS OF CHINA RISUN GROUP LIMITED

Introduction

We report on the historical financial information of 蕪湖順日信澤股權投資合夥企業(有限合夥) (Wuhu Shunri Xinze Equity Investment Partnership (LP), the "Target Company" and "Shunri Xinze") and its subsidiaries (collectively referred to as the "Target Group") set out on pages IIA-4 to IIA-47, which comprises the consolidated statements of financial position of the Target Group as at December 31, 2019 and June 30, 2020, the statements of financial position of the Target Company as at December 31, 2019 and June 30, 2020, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the period from July 24, 2019 ("Date of Incorporation") to December 31, 2019 and the six months ended June 30, 2020 (the "Reporting Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IIA-4 to IIA-47 forms an integral part of this report, which has been prepared for inclusion in the circular of China Risun Group Limited (the "Company") dated December 8, 2020 (the "Circular") in connection with the proposed acquisition of the Target Group by the Company.

Responsibility for the Historical Financial Information

The general partner 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 set out in Note 2 to the Historical Financial Information, and for such internal control as the general partner 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.

Responsibility for the content of the Circular

The directors of the Company are responsible for the content 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 general partner 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 Company's and the Target Group's financial position as at December 31, 2019 and June 30, 2020 and of the Target Group's financial performance and cash flows for the Reporting Periods in accordance with the basis of preparation 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 (the "Stock Exchange") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

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

Dividends

No dividends was declared or paid by the Target Company in respect of the Reporting Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

December 8, 2020

HISTORICAL FINANCIAL INFORMATION OF SHUNRI XINZE

Preparation of the Historical Financial Information

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

The consolidated financial statements of the Target Group for the Reporting Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Target Group, and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**For the period from July 24, 2019 to December 31, 2019**	**Six months ended June 30, 2020**
		RMB'000	*RMB'000*
Revenue from contracts with customers	6	949,863	1,760,678
Cost of sales		(984,612)	(1,749,227)
Gross (losses)/profit		(34,749)	11,451
Other income		140	537
Other expense	7	(24,543)	(45,938)
Other gains and losses	8	319,756	10,721
Impairment losses under expected credit loss, net of reversal	9	(13,258)	(4,990)
Selling and distribution expenses		(7,416)	(17,083)
Administrative expenses		(44,850)	(81,357)
Profit/(loss) before taxation	10	195,080	(126,659)
Income tax credit/(expense)	11	7,689	(4,679)
Profit/(loss) and total comprehensive income/(expense) for the period		202,769	(131,338)
Profit/(loss) and total comprehensive income/(expense) for the period attributable to owner of the Target Company		202,769	(131,338)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE TARGET GROUP

	Notes	**December 31, 2019** *RMB'000*	**June 30, 2020** *RMB'000*
Non-current assets			
Property, plant and equipment	12	3,662,224	3,619,453
Right-of-use assets	13	298,492	305,416
Intangible assets	14	236,925	224,775
Prepayment for property, plant and equipment		–	72,761
		4,197,641	4,222,405
Current assets			
Inventories	15	464,893	407,374
Other receivables	16	206,385	178,671
Trade receivables measured at amortized cost	16	379	21,259
Trade and bills receivables measured at fair value through other comprehensive income ("FVTOCI")	16	446,548	538,586
Deposit in Administrators' account	19	573,554	277,598
Restricted bank balances		271	272
Cash and cash equivalents	17	17,130	9,957
		1,709,160	1,433,717
Current liabilities			
Trade and other payables	18	491,945	652,681
Contract liability		504	7,737
Income tax payable		197,685	208,992
Restructuring debts	19	534,195	242,206
		1,224,329	1,111,616
Net current assets		484,831	322,101
Total assets less current liabilities		4,682,472	4,544,506
Non-current liabilities			
Deferred tax liabilities	20	279,703	273,075
Net assets		4,402,769	4,271,431
Capital and reserves			
Share capital	21	4,200,000	4,200,000
Reserves	22	202,769	71,431
Total equity attributable to equity holder of the Target Company		4,402,769	4,271,431
Total equity		4,402,769	4,271,431

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Notes	**December 31, 2019** *RMB'000*	**June 30, 2020** *RMB'000*
Non-current assets			
Investment in subsidiaries	29	4,200,000	4,200,000
Current assets			
Cash and cash equivalents	17	48	47
Current liabilities			
Other payable and accrual	18	607	607
Net current liabilities		(559)	(560)
Total assets less current liabilities		4,199,441	4,199,440
Net assets		4,199,441	4,199,440
Capital and reserves			
Share capital	21	4,200,000	4,200,000
Accumulated losses	22	(559)	(560)
Total equity attributable to equity holder of the Target Company		4,199,441	4,199,440
Total equity		4,199,441	4,199,440

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Group			
	Share capital	**Safety fund**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 21)	*(Note 22)*		
Incorporated on July 24, 2019	–	–	–	–
Capital contribution *(Note 21)*	4,200,000	–	–	4,200,000
Profit for the period	–	–	202,769	202,769
Net transfer to safety fund	–	27,630	(27,630)	–
Balance at December 31, 2019	4,200,000	27,630	175,139	4,402,769
Loss for the period	–	–	(131,338)	(131,338)
Net transfer to safety fund	–	3,833	(3,833)	–
Balance at June 30, 2020	4,200,000	31,463	39,968	4,271,431

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	For the period from July 24, 2019 to December 31, 2019	Six months ended June 30, 2020
		RMB'000	*RMB'000*
Operating activities			
Profit (loss) before taxation		195,080	(126,659)
Adjustments for:			
Other gains or losses, net		(319,579)	4
Other income		(140)	(537)
Impairment losses under expected credit loss, net of reversal		13,258	4,990
Depreciation and amortization		30,776	41,644
Operating cash flows before movements in working capital		(80,605)	(80,558)
Decrease in inventories		140,914	208,279
Decrease (increase) in trade and bills receivables measured at FVTOCI, trade receivables measured at amortized cost and other receivables		3,075	(86,228)
Net (decrease) increase in trade and other payables, and contract liability		(55,807)	164,094
Cash generated from operations		7,577	205,587
Income tax paid		–	–
Net cash generated from operating activities		7,577	205,587
Investing activities			
Purchase of property, plant and equipment		(14,838)	(201,805)
Proceeds on disposal of property, plant and equipment		–	15
Purchase of right-of-use assets		–	(11,507)
Interest received		140	537
Net cash inflow on acquisition of subsidiaries	24	24,251	–
Net cash generated from (used in) investing activities		9,553	(212,760)

	Note	For the period from July 24, 2019 to December 31, 2019	Six months ended June 30, 2020
		RMB'000	*RMB'000*
Financing activities			
Capital injected by owner of the Target Company		4,200,000	–
Repayment of the Restructuring Debts		(4,200,000)	–
Net cash generated from financing activities		–	–
Net increase (decrease) in cash and cash equivalents		17,130	(7,173)
Cash and cash equivalents at the beginning of the period		–	17,130
Cash and cash equivalents at the end of the period		17,130	9,957

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND GROUP REORGANIZATION

Shunri Xinze was jointly established by 中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd., "China Cinda", as the sole limited partner, the "LP") and 信達資本管理有限公司 (Cinda Capital Management Co., Ltd.), a wholly-owned subsidiary of China Cinda, (as the sole general partner, the "GP", together with China Cinda as the "Cinda Parties") in the People's Republic of China (the "PRC") on July 24, 2019 as a limited partnership. The address of Shunri Xinze's registered office is No. 92, Changjiang Middle Road, Jinghu District, Wuhu, Anhui Province, the PRC. Shunri Xinze beneficially owns 100% of the equity interests in 山東洪達化工有限公司 (Shandong Hongda Chemical Co., Ltd., "Hongda Chemical"), 山東方明化工有限公司 (Shandong Fangming Chemical Co., Ltd., "Fangming Chemical"), 山東東巨化工有限公司 (Shandong Dongju Chemical Co., Ltd., "Dongju Chemical"), 山東恒順供熱有限公司 (Shandong Hengshun Heat Supply Co., Ltd., "Hengshun Heat Supply"), 山東洪鼎化工有限公司 (Shandong Hongding Chemical Co., Ltd., "Hongding Chemical") and 山東勇智化工有限公司 (Shandong Yongzhi Chemical Co., Ltd., "Yongzhi Chemical") (collectively, "Hongye Chemicals Enterprises").

On September 28, 2018, the Intermediate People's Court of Heze City, Shandong Province (the "Court") appointed bankruptcy administrators (the "Administrators") for 洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd, "Hongye Chemical"), the then ultimate holding company of the Hongye Chemicals Enterprises, and its subsidiaries and certain other related companies (collectively referred to as the "Hongye Group Companies").

Since July 2019, 旭陽集團有限公司 (Risun Group Limited, "Risun Chemicals", formerly known as Risun Chemicals Limited) and its subsidiary 北京旭陽宏業化工有限公司 (Beijing Risun Hongye Chemicals Co., Limited, "Beijing Risun Hongye"), subsidiaries of the Company, were jointly engaged to manage the daily operation of the Hongye Chemical Enterprises, including keeping the books and records, on behalf of the Administrators.

On July 31, 2019, the Court affirmed the restructuring proposal (the "Plan") which includes:

- the acquisition of the Hongye Group Companies by Heze Jinda Asset Management Company ("Heze Jinda", the sole restructuring investor); and
- a capital restructuring and debt restructuring of the Hongye Group Companies, as well as injection of funds into the Hongye Group Companies to restructure its debts adjudicated by the Administrators (the "Restructuring Debts") as set out in Note 19. According to the Plan and Article 46 of the "Enterprise Bankruptcy Law" of the PRC, all adjudicated creditor claims fell due and payable and all interest charges, if applicable, have been suspended effective from the date of the Court's affirmation of the Plan.

The Target Company entered into an agreement with Heze Jinda, the Administrators and the Hongye Chemical Enterprises on September 16, 2019 and an investment agreement with the Hongye Chemical Enterprises on September 19, 2019 (the "Investment Agreements"). Pursuant to the Investment Agreements, the Target Company will be the parent company of the Hongye Chemical Enterprises by injecting RMB4,200 million into the Hongye Chemical Enterprises to settle the Restructuring Debts which will be directly paid to Heze Jinda.

On September 20, 2019, the Target Company directly or indirectly acquired 100% of the registered capital of the Hongye Chemical Enterprises, except that the 1.23% equity interests in the Fangming Chemical was transferred to the Target Company on October 17, 2019.

On September 27, 2020, the Court affirmed the completion of the required restructuring actions under the Plan, among others, transfer in full the required funds to the Administrators and actual payment of the funds by the Administrators to the creditors based on the claims adjudicated by the Administrators, as disclosed in Note 19. Pursuant to the Court's affirmation, the Target Group was considered to have discharged all its obligations under the Plan.

The Target Group are engaged in the production, sale and distribution of coke, coking chemicals and refined chemicals (the "Core Business"). Their plants are located in Shandong Dongming Engineering Plastic Industrial Park and Shandong Yuncheng Chemical Industrial Park.

No statutory audited financial statements were issued for the Target Group since the Target Company was incorporated.

The Historical Financial Information are presented in RMB, which is also the functional currency of the Target Company and its subsidiaries.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

According to the partnership agreement between the LP and GP of the Target Company, the GP is responsible for the preparation of Historical Financial Information. The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with the IFRSs issued by the IASB.

3. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Reporting Periods, the Target Group has consistently applied the IFRSs, which are effective for the accounting period throughout the Reporting Periods.

New and revised IFRSs in issue but not yet effective

The Target Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[3]

1 Effective for annual periods beginning on or after January 1, 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2022
4 Effective for annual periods beginning on or after June 1, 2020
5 Effective for annual periods beginning on or after January 1, 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements has been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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 consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate these financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved where the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Where necessary, adjustments are made to these financial statements of subsidiaries to bring their accounting policies in line with the Target Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

Investments in subsidiaries

Investments in subsidiaries are stated in the statements of financial position of the Target Company at cost less any identified impairment loss that has been recognized in profit or loss.

Business combinations

Acquisitions of non-common control businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Revenue from contracts with customers

The Target Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the products or services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

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

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

Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or services.

A point in time revenue recognition

The revenue of the Target Group is recognized at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from sales of goods to the Target Group's customers in connection with the production of coke and coking chemicals and refined chemicals are recognized when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

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

Leasing

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.

For contracts entered into or modified on or after the inception date, the Target Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Group as a lessee

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- 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, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Target Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position.

Government grants

Government grants are not recognized until there is a reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Target Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit scheme contribution

Payable to the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognized as expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages, salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit/(loss) before taxation as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items 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 by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary difference associated with investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 in which the liability is settled or the asset is realized, based on tax rates (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 amounts 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 by the same taxation authority and the Target Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income ("OCI") or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Target Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated 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 of goods or services, or for administrative purposes are carried at cost, less any recognized 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. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Target Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the costs (other than properties under construction) less their residual values over their 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.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the profit or loss in the period which the item is derecognized.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses (see the accounting policy in respect of impairment losses on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill below). Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

At the end of each reporting period, the Target Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that those 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 addition, the Target Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units (the "CGU"), when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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 (or the CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Target Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or a group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or a group of CGUs. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU or the group of CGUs) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the CGU or the group of CGUs) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using weighted average cost formula. Net realizable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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 IFRS 15. 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 amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. 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 or 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 amortized cost:

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

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

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

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

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost and receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, are recognized in profit or loss. All other changes in the carrying amount of these receivables are recognized in OCI and accumulated in the equity. Impairment allowance are recognized in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these receivables had been measured at amortized cost. When these receivables are derecognized, the cumulative gains or losses previously recognized in OCI are reclassified to profit or loss.

Impairment of financial assets

The Target Group performs impairment assessment under expected credit loss ("ECL") model on financial assets subject to impairment under IFRS 9 (including other receivables, trade and bills receivables measured at FVTOCI, trade receivables measured at amortized cost, deposits in Administrators' account and bank balances). The amount of ECL is updated at the end of each reporting period 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, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of each reporting period. Assessments 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 end of each reporting period as well as the forecast of future conditions.

The Target Group always recognizes lifetime ECL for trade receivables arising from contracts with customers. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except that significant balances 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, the Target Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood of risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the aforegoing, the Target Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A financial instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Target Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay all amounts due in accordance with the contractual terms.

Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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 following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;

- 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;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Target Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

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 adjusted by forward-looking information.

Generally, the ECL is estimated as 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.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by the GP to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

Except for trade and bill receivables measured at FVTOCI, the Target Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of other receivables and trade receivables measured at amortized cost where the corresponding adjustment is recognized through a loss allowance account. For trade and bill receivables measured at FVTOCI, the loss allowance is recognized in OCI and accumulated in the equity without reducing the carrying amounts of these debt receivables. Such amount represents the changes in the other reserve in relation to accumulated loss allowance.

Derecognition of financial assets

The Target Group derecognizes a financial asset only when the rights to receive cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred financial asset, the Target Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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 are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities at amortized cost, including trade and other payables and restructuring debts, are initially measured at fair value, net of transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

The Target Group derecognizes financial liabilities when, and only when, the Target Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Target Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in Note 4, the GP of the Target Company are required to make 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates 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 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 are as follows:

Useful life and impairment of property, plant and equipment

In determining whether an asset is impaired, the GP requires an estimation of recoverable amount of an individual asset or the CGUs to which the asset belongs, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the assets, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset's value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the CGUs to which the assets belongs.

Changing the assumptions selected by the GP to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses as at December 31, 2019 and June 30, 2020 were RMB3,662,224,000 and RMB3,619,453,000, respectively.

Key sources of estimation uncertainty

Recognition of intangible assets acquired in business acquisition

The Target Group accounts for acquisitions of a business by using the acquisition method, and the consideration transferred for the business acquisition is allocated to the identifiable assets acquired, including intangible assets, and liabilities assumed based on their respective fair values as at acquisition date with significant unobservable inputs used in valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. The Target Group determines the fair value of intangible assets using excess earning methodology of the income approach, which requires a set of estimations and determination of key inputs, including the future cash flow, profit margins, revenue growth rates and discount rates. Any changes to these inputs may have significant impact on the fair value of intangible assets, and will consequently have further impact on the goodwill or the profit or loss in the case of a bargain purchase. Further details are set out in Note 24.

Estimated impairment of doubtful receivables

The Target Group recognizes lifetime ECL for trade receivables assessing individually for debtors with significant balances or collectively using a provision matrix by appropriate groupings. In addition, the Target Group recognizes lifetime ECL for other receivables when there has been a significant increase in credit risk since initial recognition. The amount of the impairment loss based on ECL model is measured as 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. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. Further details are included in Note 27.

Taxation

Determining tax provisions involves judgement on the future tax treatments of certain transactions. The Target Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account of all changes in tax legislations.

Due to the change of management team and the restructuring proposal for the Hongye Chemical Enterprises in the past few years as set out in Note 1, the GP has exercised judgement in estimating the outcome of the tax exposure. Should the tax losses and/or relevant allowance be approved by the local tax authorities, it would have a corresponding adjustments on other gains and losses, income tax payable and deferred tax assets/liabilities as set out in Note 20.

6. REVENUE AND SEGMENT INFORMATION

During the Reporting Periods, the Target Group's revenue represents the amount received and receivable from the sales of goods to external customers arising from the coke and coking chemicals, refined chemicals. The revenue is recognized at a point in time when the customers obtain control of the goods delivered.

All sales from contracts with customers are for a period of one year or less. As permitted under IFRS 15, the transaction price allocated to the unsatisfied contracts is not disclosed.

Information reported to the GP, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods delivered. Specifically, the Target Group's reportable segments under IFRS 8 are as follows:

- Coke and coking chemicals manufacturing segment: the production and sale of coke and a series of coking chemicals from externally sourced coking coals processed at the Target Group's coking facilities; and

- Refined chemicals manufacturing segment: the purchase of coking chemicals from the Target Group's coke and coking chemicals manufacturing segment and third parties, and processing such coking chemicals into refined chemical products at the Target Group's refined chemicals facilities, as well as marketing and selling such refined chemicals.

The CODM reviews operating results and financial information for each operating company separately. Accordingly, each operating company is identified as an operating segment. Those operating companies are aggregated into coke and coking chemicals segment and refined chemicals segment respectively for segment reporting purpose after taking into account that those operating companies are operating in similar business model with similar target group of customers, similar products and similar methods used to distribute their products. The accounting policies of the reportable segments are the same as the Target Group's accounting policies described in Note 4.

Segment results

The CODM monitors the results attributable to each reporting segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments.

The measure used for reporting segment profit is "segment results". To arrive at segment results, the Target Group's earnings are adjusted for unallocated head office and corporate expense which are not specifically attributable to individual segments.

In addition to receiving segment information concerning segment results, the CODM is provided with segment information concerning revenue, depreciation, amortization and additions to non-current segment assets used by the segments in their operations.

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

The following is an analysis of the Target Group's results by reportable segments:

	For the period from July 24, 2019 to December 31, 2019		
	Coke and Coking Chemicals Manufacturing	**Refined Chemicals Manufacturing**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with external customers			
Sale of coke and coking chemicals	531,876	–	531,876
Sale of refined chemicals	–	417,987	417,987
	531,876	417,987	949,863
Inter-segment revenue	82,635	1,019	83,654
Reportable segment revenue	614,511	419,006	1,033,517
Reportable segment results	(38,667)	(63,598)	(102,265)
Unallocated income and head office and corporate expenses			297,345
Consolidated profit before taxation			195,080
Other information:			
Additions to non-current segment assets during the period	7,732	7,106	14,838
Depreciation and amortization for the period	48,936	55,387	104,323

	Six months ended June 30, 2020		
	Coke and Coking Chemicals Manufacturing	Refined Chemicals Manufacturing	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with external customers			
Sale of coke and coking chemicals	1,128,363	–	1,128,363
Sale of refined chemicals	–	632,315	632,315
	1,128,363	632,315	1,760,678
Inter-segment revenue	131,909	921	132,830
Reportable segment revenue	1,260,272	633,236	1,893,508
Reportable segment results	10,673	(137,331)	(126,658)
Unallocated head office and corporate expenses			(1)
Consolidated loss before taxation			(126,659)
Other information:			
Additions to non-current segment assets during the period	89,123	128,064	217,187
Depreciation and amortization for the period	80,406	111,998	192,404

Reconciliations of reportable segment revenue and results.

	For the period from July 24, 2019 to December 31, 2019	Six months ended June 30, 2020
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	1,033,517	1,893,508
Elimination of inter-segment revenue	(83,654)	(132,830)
Consolidated revenue	949,863	1,760,678
Results		
Reportable segment results	(102,265)	(126,658)
Unallocated income and head office and corporate expenses	297,345	(1)
Profit (loss) before taxation	195,080	(126,659)

No segment assets and liabilities are presented as they were not regularly provided to the CODM for the purpose of resources allocation and performance assessment.

Geographic information

All the revenue and operating results of the Target Group is derived from the PRC based on location of the operations. All the Target Group's non-current assets are located in the PRC based on geographical location of the assets.

Major customers

No individual customer had transactions exceeding 10% of the Target Group's turnover for each of the reporting periods. Details of concentrations of credit risk are set out in Note 27.

7. OTHER EXPENSE

	For the period from July 24, 2019 to December 31, 2019	**Six months ended June 30, 2020**
	RMB'000	*RMB'000*
Expense on suspension of production *(note)*	22,447	44,665
Others	2,096	1,273
	24,543	45,938

Note: Expense on suspension of certain production lines during the Reporting Periods, including depreciation of property, plant and equipment and right-of-use assets, and the staff costs.

8. OTHER GAINS AND LOSSES

	For the period from July 24, 2019 to December 31, 2019	**Six months ended June 30, 2020**
	RMB'000	*RMB'000*
Loss on disposal of:		
– property, plant and equipment	–	(4)
Gain on disposal of waste material	–	10,170
Bargain purchase gain arising on acquisition *(Note 24)*	297,904	–
Debt waived *(note)*	21,675	–
Others	177	555
	319,756	10,721

Note: Debt waived represents the waiver of the net amounts owing by the Hongye Chemical Enterprises to the Hongye Group Companies other than Hongye Chemical Enterprises (the "Other Hongye Companies") according to the agreement between the Hongye Chemical Enterprises and the Other Hongye Companies for the waiver of the net balance as at December 31, 2019.

9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS, NET OF REVERSAL

	For the period from July 24, 2019 to December 31, 2019	Six months ended June 30, 2020
	RMB'000	*RMB'000*
Net impairment losses recognized in respect of:		
Trade and other receivables *(Note 27)*	13,258	4,990

10. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	For the period from July 24, 2019 to December 31, 2019	Six months ended June 30, 2020
	RMB'000	*RMB'000*
Staff costs		
Salaries, wages and other benefits	47,555	85,730
Contributions to retirement benefits scheme	3,541	4,546
Total staff costs	51,096	90,276
Capitalized in inventories	(37,451)	(64,337)
	13,645	25,939
Depreciation of property, plant and equipment	96,045	175,671
Amortization of right-of-use assets	2,203	4,583
Amortization of intangible assets	6,075	12,150
Total depreciation and amortization	104,323	192,404
Capitalized in inventories	(73,547)	(150,760)
	30,776	41,644
Cost of inventories recognized as an expense	984,825	1,749,258

11. INCOME TAX (CREDIT) EXPENSE

	For the period from July 24, 2019 to December 31, 2019	Six months ended June 30, 2020
	RMB'000	*RMB'000*
Current tax		
PRC income tax for the period	197,685	11,307
Deferred tax *(Note 20)*	(205,374)	(6,628)
	(7,689)	4,679

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25% for the Reporting Periods.

Income tax (credit)/charge for the period can be reconciled to the profit/(loss) before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	For the period from July 24, 2019 to December 31, 2019	Six months ended June 30, 2020
	RMB'000	*RMB'000*
Profit/(loss) before taxation	195,080	(126,659)
Tax at the PRC tax rate of 25%	48,770	(31,665)
Tax effect on:		
Income not taxable for tax purpose	(74,476)	–
Non-deductible expenses	74	3,030
Unused tax losses and temporary differences not recognized	17,943	33,314
Income tax (credit)/charge for the period	(7,689)	4,679

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Machinery and equipment	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At July 24, 2019	–	–	–	–	–	–
Acquisition of subsidiaries *(Note 24)*	1,326,392	2,402,622	547	13,462	408	3,743,431
Additions	–	5,447	1,598	3,998	3,795	14,838
At December 31, 2019	1,326,392	2,408,069	2,145	17,460	4,203	3,758,269
Additions	–	3,164	–	986	128,769	132,919
Transfer from construction in progress	–	1,848	–	–	(1,848)	–
Disposals	–	–	(189)	–	–	(189)
At June 30, 2020	1,326,392	2,413,081	1,956	18,446	131,124	3,890,999
Depreciation and impairment						
At July 24, 2019	–	–	–	–	–	–
Depreciation	18,805	76,341	101	798	–	96,045
At December 31, 2019	18,805	76,341	101	798	–	96,045
Depreciation	39,206	134,864	142	1,459	–	175,671
Disposals	–	–	(170)	–	–	(170)
At June 30, 2020	58,011	211,205	73	2,257	–	271,546
Carrying amounts						
At December 31, 2019	1,307,587	2,331,728	2,044	16,662	4,203	3,662,224
At June 30, 2020	1,268,381	2,201,876	1,883	16,189	131,124	3,619,453

The above items of property, plant and equipment, other than construction in progress, after taking into account their estimated residuals, are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Machinery and equipment	5–30 years
Motor vehicles	3–12 years
Office equipment	2–15 years

As at December 31, 2019 and June 30, 2020, building ownership certificates in respect of property, plant and equipment of the Target Group with an aggregate carrying amount of approximately RMB104,322,000 and RMB101,584,000 had not been issued by the relevant PRC authorities. All leasehold land and buildings are located in the PRC.

13. RIGHT-OF-USE ASSETS

	Leasehold lands *RMB'000*
Acquisition of subsidiaries *(Note 24)*	300,695
Depreciation charge	(2,203)
As at December 31, 2019	298,492
Additions	11,507
Depreciation charge	(4,583)
As at June 30, 2020	305,416

14. INTANGIBLE ASSETS

	Technology *RMB'000*
Cost	
Acquisition of subsidiaries *(Note 24)*	243,000
As at December 31, 2019 and June 30, 2020	243,000
Accumulated amortization	
Amortized for the period	6,075
As at December 31, 2019	6,075
Amortized for the period	12,150
As at June 30, 2020	18,225
Carrying amounts	
As at December 31, 2019	236,925
As at June 30, 2020	224,775

The Target Group's intangible assets represent production technology which are recognised through business combinations. The intangible assets are amortized on a straight-line basis over the expected useful life.

15. INVENTORIES

	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*
Raw materials	211,356	217,589
Finished goods	253,537	189,785
	464,893	407,374

16. TRADE AND BILLS RECEIVABLES MEASURED AT FVTOCI/TRADE RECEIVABLES MEASURED AT AMORTIZED COST/OTHER RECEIVABLES

	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*
Trade receivables measured at FVTOCI	369,985	490,011
Bills receivables measured at FVTOCI	76,563	48,575
Trade and bills receivables measured at FVTOCI	446,548	538,586
Trade receivables measured at amortized cost	379	21,548
Less: impairment	–	(289)
	379	21,259
Prepayments for raw materials	103,870	73,324
Other deposits, prepayments and other receivables	10,399	18,903
Deductible input value added tax and prepaid other taxes and charges	96,384	90,766
Less: impairment	(4,268)	(4,322)
Other receivables	206,385	178,671

Aging of trade receivables measured at FVTOCI and amortized cost based on invoice dates, which approximated the respective revenue recognition dates, are as follows:

	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*
Within one month	179,471	257,488
1 to 3 months	114,214	170,587
4 to 6 months	76,525	75,112
7 to 12 months	154	8,083
	370,364	511,270

Bills receivable are bank acceptance notes and the average aging based on the maturity date is from 90 days to 360 days.

The Target Group applied the expected credit losses prescribed by IFRS 9, and the impairment methodology of ECL model is set out in Note 27.

The following bills receivables as at December 31, 2019 and June 30, 2020 were transferred to suppliers by endorsing those receivables on a full recourse basis. As the Target Group has not transferred the substantially all the risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the receivables and the corresponding liabilities included in trade payables. These financial assets are carried at FVTOCI in the consolidated statements of financial position.

	December 31, 2019	**June 30, 2020**
	RMB'000	*RMB'000*
Carrying amount of bills receivables associated payables to suppliers *(Note 18)*	67,170	31,218

During the Reporting Periods, the Target Group has transferred the substantially all the risks and rewards relating to certain bills receivable endorsed to suppliers even if the suppliers endorsed have the right of recourse, and the Target Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed bills receivable is remote because all endorsed bills receivable are issued and guaranteed by the PRC reputable banks. As a result, the relevant assets and liabilities were derecognized and no longer included in the Historical Financial Information. The maximum exposure to the Target Group that may result from the default of these endorsed bills receivable at the end of each of the reporting period are as follows:

	December 31, 2019	**June 30, 2020**
	RMB'000	*RMB'000*
Endorsed bills for settlement of payables to suppliers	94,336	178,888
Outstanding endorsed bills receivable with recourse	94,336	178,888

The outstanding endorsed bills receivable are matured within 12 months.

17. CASH AND CASH EQUIVALENTS

The Target Group

Bank balances carried interest at market interest rate ranging from 0.3% to 0.35% per annum as at December 31, 2019 and June 30, 2020, respectively. Bank balances and cash as at December 31, 2019 and June 30, 2020 were denominated in RMB.

	December 31, 2019	**June 30, 2020**
	RMB'000	*RMB'000*
Cash and cash equivalents	17,130	9,957

The Target Company

	December 31, 2019	**June 30, 2020**
	RMB'000	*RMB'000*
Cash and cash equivalents	48	47

18. TRADE AND OTHER PAYABLES

The Target Group

	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Trade payables	372,779	564,982
Payables to be settled by the endorsed bills receivable *(Note 16)*	67,170	31,218
Payables for construction in progress	1,560	5,435
Other payables and accruals	50,436	51,046
	491,945	652,681

All trade and other payables are expected to be settled within one year.

The following is an aging analysis of trade payables and based on the invoice date at the end of each reporting period:

	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Within 3 months	170,264	122,183
4 to 6 months	60,137	240,933
7 to 12 months	112,722	163,888
1–2 years	29,629	34,345
2–3 years	27	3,633
	372,779	564,982

The Target Company

	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Other tax payable	525	525
Accrual expenses	82	82
	607	607

19. RESTRUCTURING DEBTS

	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Tax payable *(note b)*	10,781	–
Salaries payable *(note b)*	33,920	13,112
Unsecured debts *(note c)*	161,570	2,403
Unconfirmed debts *(note d)*	226,691	226,691
Other liabilities *(note e)*	101,233	–
	534,195	242,206

Restructuring Debts represent indebtedness entering into adjudication process effective from September 28, 2018 and the debts affirmed by the Court on July 31, 2019 after due adjudication by the Administrators.

According to the Plan disclosed in Note 1, the Restructuring Debts below are to be settled based on the payment sequence and ratio stipulated in the Plan, using the funds injected by the investors, with the balance to be discharged upon the completion of such payments and the Court's affirmation of such completion. The Restructuring Debts includes:

(a) secured debts, paid at a percentage of the realized value of the pledged assets and the unpaid portion lumped together with other unsecured debts; and

(b) taxes payable and salaries payable which will be paid in full; and

(c) unsecured debts less than RMB200,000 which will be paid in full and unsecured debts more than RMB200,000 which will be paid at ratio of 11.13% according to the Plan; and

(d) unconfirmed debts, which consist of debts pending for endorsement by creditors and the Court as well as potential creditor claims yet to be received, will be paid in accordance with the payment pattern for the similar indebtedness; and

(e) other liabilities, including bankruptcy fees and debts from the Other Hongye Companies allocated to the Target Group.

According to the Plan and the Investment Agreements, the Target Company injected RMB4,200,000,000 into the Hongye Chemical Enterprises to settle the Restructuring Debts as set out in Note 1 and the Administrators paid the funds to the debts claimants in accordance with the Plan.

On September 27, 2020, the Court affirmed the completion of the required restructuring actions under the Plan. As at this date, the remaining Restructuring Debts and the appropriate funds in the Administrators' account designated by the Court are amounting to RMB224,716,000.

20. DEFERRED TAX LIABILITIES

	December 31, 2019 RMB'000	June 30, 2020 RMB'000
Deferred tax liabilities	279,703	273,075

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following are the major deferred tax liabilities and assets recognized before offset and movements thereon during the Reporting Periods:

	Temporary differences on non-current assets RMB'000	Losses arising from the debts restructuring RMB'000 (note i)	Gains arising from the debts restructuring RMB'000 (note ii)	Total RMB'000
Acquisition of subsidiaries *(Note 24)*	153,347	(821,597)	1,153,327	485,077
Credited to profit or loss	(4,671)	768,552	(969,255)	(205,374)
As at December 31, 2019	148,676	(53,045)	184,072	279,703
Credited to profit or loss	(6,628)	–	–	(6,628)
As at June 30, 2020	142,048	(53,045)	184,072	273,075

Note:

(i) The losses represent the net losses arising from the capital restructuring and debt restructuring between the Hongye Chemical Enterprises and Other Hongye Companies under the Plan as set out in Note 1.

(ii) The gains represent the net gains arising from the required restructuring actions for the debts owing to the external creditors under the Plan as set out in Note 1 and 19.

Following the approval of the Plan, the Target Company acquired the Hongye Chemical Enterprises during the period ended December 31, 2019 as set out in Notes 1 and 24. The Plan is completed in 2020, so the Hongye Chemical Enterprises revised the tax filing for the year ended December 31, 2019 by taking into account the impact of the debts restructuring on November 11, 2020. The revised tax filing is pending for the endorsement by the local tax authorities, and the tax losses and relevant allowance of the Hongye Chemicals Enterprises in the past few years cannot be ascertained up to this report date.

Considering the advice of the tax expert, the GP were of the opinion that it was not reasonably certain that there could be tax losses and/or relevant allowance approved by the local tax authorities, in addition to losses arising from the debts restructuring, to offset the gains arising from the debts restructuring in the ultimate outcome of the tax filing. Accordingly, no deferred tax assets in respect of these potential tax losses and/or relevant allowance could be recognized upon acquisition, representing the best estimate of the GP.

On November 11, 2020, the Hongye Chemicals Enterprises filed the tax returns to the relevant local tax authorities. Should the tax losses and/or relevant allowance be approved by the local tax authorities, it would have a corresponding adjustments on other gains and losses, income tax payable and deferred tax assets/liabilities.

21. SHARE CAPITAL

The Target Company and the Target Group

	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*
At the beginning of the period	–	4,200,000
Capital injected *(note)*	4,200,000	–
At the end of the period	4,200,000	4,200,000

Note: On September 17 and 18, 2019, the LP and GP of the Target Company paid RMB4,199,000,000 and RMB1,000,000 for capital injection, respectively.

22. RESERVES

The Target Group

Safety fund

Pursuant to relevant PRC regulation, the Target Group is required to transfer from 0.2% to 4% on revenue generated from the Core Business into a designated fund. The fund will be used for installation, repair and maintenance of safety facilities. The movements during the period represent the difference between the amounts provided based on the relevant PRC regulation and the amount utilized during the period.

Pursuant to the relevant PRC regulations, provision for the Target Group's obligations for safety operation are based on the Target Group's revenue from sales of coke and chemicals for the periods. The Target Group is required to make a transfer for the provision of safety fund from retained profits to a specific reserve. The safety fund could be utilized when expenses or capital expenditures on safety operation or measures are incurred. The amount of safety fund utilized would be transferred from the specific reserve back to retained profits.

The Target Company

Movements in the Target Company's reserves

	Accumulated losses
	RMB'000
Incorporated on July 24, 2019	–
Loss for the period	(559)
At December 31, 2019	(559)
Loss for the period	(1)
At June 30, 2020	(560)

No dividends have been paid by the Target Company during the Reporting Periods.

23. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Target Group participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities whereby the Target Group is required to make contributions to the Schemes based on applicable rates. The municipal government authorities are responsible for the entire pension obligations payable to retired employees.

The Target Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

24. ACQUISITION OF SUBSIDIARIES

On September 20, 2019, the Target Company acquired 100% of the equity interests in Hongye Chemicals Enterprises as set out in Note 1.

The amounts of fair value of the assets and liabilities of the Hongye Chemicals Enterprises at the date of becoming subsidiaries of the Target Group on September 20, 2019 were as follows:

	RMB'000
Non-current assets	
Property, plant and equipment	3,743,431
Right-of-use assets	300,695
Intangible assets	243,000
Current assets	
Inventories	532,260
Other receivables	444,677
Trade and bills receivables	264,327
Pledged bank deposits	271
Cash and cash equivalents	24,251
Current liabilities	
Trade and other payables	(566,826)
Contract liabilities	(3,105)
Restructuring debts	(4,200,000)
Non-current liabilities	
Deferred tax liabilities	(485,077)
Net assets acquired	297,904
Capital injected by the Target Company	4,200,000
Net assets acquired including capital injected by the Target Company	4,497,904
Bargain purchase gain arising on acquisition	
Consideration	4,200,000
Less: Fair value of identified net assets acquired including capital injected by the Target Company	(4,497,904)
Bargain purchase gain arising on acquisition	(297,904)

Bargain purchase gain amounting to RMB267,203,000 on acquisition of the Hongye Chemicals Enterprises was recognized within the other gain and loss in the consolidated statements of profit or loss and other comprehensive income and resulted from that the consideration was based on the liquidating value of the net assets of the Hongye Chemicals Enterprises.

	RMB'000
Total consideration satisfied by:	
Capital injected by the Target Company	4,200,000
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	24,251
Less: Cash consideration paid	–
	24,251

The fair value of assets and liabilities at the date of acquisition is evaluated by an independent professional valuer.

The trade and other receivables acquired with a fair value of RMB709,004,000 at the date of acquisition had gross contractual amounts of RMB1,032,163,000. The amount of fair value was expected to be collectible at the acquisition date.

The fair value of restructuring debts at the date of acquisition is evaluated based on the Plan and the Investment Agreement.

Impact of acquisition on the results of the Target Group

Included in the profit for the period ended December 31, 2019 was RMB94,576,000 of loss attributable to the additional business generated by the Hongye Chemicals Enterprises. Revenue for the period ended December 31, 2019 included RMB949,863,000 generated from the Hongye Chemicals Enterprises.

25. CONTINGENT LIABILITIES

Pending arbitration of the Target Group

As of the date of this report, the Target Group is undergoing an arbitration with its then third-party contractor in respect of the services provided to the Target Company prior to May 2020. The GP believes, based on legal advice on the claims and the counterclaims, that no loss (including claims for costs) will be incurred. The amount payable to the contractor arising from the normal courses of business have been recognized in the statement of financial position as at June 30, 2020 and included in trade payables.

Undeclared claims of the Target Group

According to the Plan, the undeclared creditors, of which no provision was made by the Target Group, will have right to request payment within two years after the completion of the Plan on September 27, 2020. The GP believes, base on the indemnity provided by the Heze Jinda, that further payment to be made by the Target Group is remote and therefore no further provision is required.

26. CAPITAL MANAGEMENT

The GP's primary objectives of managing capital are to safeguard the Target Group's ability to continue as a going concern, and to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The GP actively and regularly reviews and manages its capital structure to maintain a balance between the higher returns that might be possible by making adjustments to the capital structure in light of changes in economic conditions.

Based on recommendations of the GP, the Target Group will balance its overall capital structure through raising new debt financing or selling assets to reduce debt. During the Reporting Periods, there were no changes in the objectives, policies or processes.

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of each reporting period are set out as follows:

	December 31, 2019	**June 30, 2020**
	RMB'000	*RMB'000*
The Target Group		
Financial assets		
Trade and bills receivables measured at FVTOCI	446,548	538,586
Financial assets at amortized cost	597,465	323,667
Financial liabilities		
Financial liabilities at amortized cost	965,851	857,894

Financial risk management objectives and policies

The Target Group's major financial instruments include trade and bills receivables measured at FVTOCI, trade receivables measured at amortized cost, other receivables, deposit in Administrators' account, restricted bank deposits, bank balances and cash, trade and other payables, and restructuring debts. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The GP manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Group's counterparties default on their contractual obligations resulting in financial losses to the Target Group. The Target Group's credit risk exposures are primarily attributable to trade and bills receivables measured at FVTOCI, trade receivables measured at amortized cost, other receivables, deposit in Administrators' account and cash and cash equivalents. The Target Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

To manage risk arising from cash and cash equivalents, restricted bank balances and bank acceptance bills, the Target Group mainly transacts with state-owned or reputable financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions. Therefore the GP considers the credit risk arising from cash and cash equivalents, restricted bank balances and bank acceptance bills is insignificant.

To manage risk arising from receivable balances, the Target Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the GP performs ongoing credit evaluations of its counterparties. The credit period granted to the customers and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. Therefore the GP considers that the Target Group's credit risk is significantly reduced.

As at December 31, 2019 and June 30, 2020, the Target Group had concentration of credit risk as 81.12% and 86.36% of trade receivables were due from Risun Chemicals and its subsidiaries which are the trading agent of the Target Group.

The Target Group reassess lifetime ECL for trade receivables arising from contracts with customers as at December 31, 2019 and June 30, 2020 to ensure that adequate impairment loss are made for significant increase in the likelihood or risk of a default occurring. For debtors with significant balances and credit impaired, the ECL is assessed individually. For other debtors, the Target Group uses debtors' aging to assess the impairment for its customers because these customers consists of a number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted by forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the GP to ensure relevant information about specific debtors is updated.

For other receivables, the Target Group makes periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. For the Reporting Periods, the Target Group assessed the ECL for other receivables set out in the below table showing reconciliation of loss allowances.

For deposit in Administrators' account, the Target Group measures the loss allowance equal to 12-month ECL. The Target Group have assessed and concluded that the risk of default rate for deposit in Administrators' account are low based on the reputation of the counterparties and the nature of the balances. Thus, the GP considered that the ECL for deposit in Administrators' account of the Target Group is insignificant as at December 31, 2019 and June 30, 2020.

The tables below detail the credit risk exposures of the Target Group's trade and bills receivables measured at FVTOCI, trade receivables measured at amortized cost, other receivables and deposit in Administrators' account, which are subject to ECL assessment:

	Notes	**12-month or lifetime ECL**	**December 31, 2019 Gross carrying amount**		**June 30, 2020 Gross carrying amount**	
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortised cost						
Trade receivables *(note i)*	16	Not Credit-impaired (individually)	379		15,880	
		Lifetime ECL (provision matrix)	–	379	5,668	21,548
Other receivables *(note ii)*	16	12-month ECL	5,958		14,581	
		Credit-impaired (individually)	4,441	10,399	4,322	18,903
Deposit in Administrators' account *(note ii)*	19	12-month ECL	573,554	573,554	277,598	277,598
Financial assets at FVTOCI						
Trade receivables *(note i)*	16	Not Credit-impaired (individually)	349,107		482,291	
		Lifetime ECL (provision matrix)	21,407		2,366	
		Credit-impaired (individually)	8,461	378,975	18,991	503,648
Bills receivable *(note ii)*	16	12-month ECL	76,563	76,563	48,575	48,575

Notes:

(i) For trade receivables, the Target Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL.

(ii) For the purposes of internal credit risk management, the Target Group uses past due information or other relevant information available without undue cost or effort to assess whether credit risk has increased significantly since initial recognition.

December 31, 2019

	Past due	**Not past due/ No fixed repayment terms**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	4,441	5,958	10,399
Deposit in Administrators' account	–	573,554	573,554
Bills receivable	–	76,563	76,563

June 30, 2020

	Past due	Not past due/ No fixed repayment terms	Total
	RMB'000	*RMB'000*	*RMB'000*
Other receivables	4,322	14,581	18,903
Deposit in Administrators' account	–	277,598	277,598
Bills receivable	–	48,575	48,575

The following table shows the movement in lifetime ECL that has been recognized for trade receivables under the simplified approach:

	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*
As at July 24, 2019	–	–	–
– Impairment losses recognized	529	8,461	8,990
As at December 31, 2019	529	8,461	8,990
– Impairment losses recognized	4,787	149	4,936
As at June 30, 2020	5,316	8,610	13,926

The following table details the risk profile of trade receivables except for significant balances and credit impaired based on the Target Group's provision matrix with debtors' aging.

	As at December 31, 2019		As at June 30, 2020	
	Average loss rate	Gross carrying amounts	Average loss rate	Gross carrying amounts
		RMB'000		*RMB'000*
Aging				
Within 1 month	–	–	0.00%	6,840
1 to 3 months	2.35%	682	–	–
4 to 6 months	2.61%	20,725	–	–
7 to 12 months	–	–	24.20%	1,194
		21,407		8,034

As at December 31, 2019 and June 30, 2020, the Target Group provided RMB556,000 and RMB289,000 impairment allowance for trade receivables based on the provision matrix. In addition, as at December 31, 2019 and June 30, 2020, debtors with gross carrying amounts from trade receivables amounting to RMB357,947,000 and RMB517,162,000 were assessed individually and impairment allowance of RMB8,434,000 and RMB13,637,000 were made.

The following table shows reconciliation of loss allowances that have been recognized for other receivables:

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at July 24, 2019	–	–	–	–
– Impairment losses recognized	–	–	4,268	4,268
As at December 31, 2019	–	–	4,268	4,268
– Impairment losses recognized	–	–	54	54
As at June 30, 2020	–	–	4,322	4,322

Liquidity risk

Individual operating entities within the Target Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

At the end of each reporting period, almost all of the remaining contractual maturities of the Target Group's financial liabilities were within one year.

Fair values

(i) Financial instruments carried at fair value

The Target Group measures its following financial instruments at fair value at the end of each of the reporting period on a recurring basis:

	Fair value As at December 31, 2019	Fair value As at June 30, 2020	Fair value hierarchy	Valuation technique and key input	Significant unobservable input(s)
	RMB'000	*RMB'000*			
Trade and bills receivables measured at FVTOCI	446,548	538,586	Level 2	Fair values are estimated based on the present value of the contracted cash inflow at the discount rate that reflects the market credit risk	N/A

(ii) Fair values of financial instruments carried at amortized cost

The GP consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information approximate their fair values due to short maturity.

28. COMMITMENTS

(a) Capital commitments outstanding at the end of each reporting period not provided for in the Historical Financial Information were as follows:

	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Capital expenditure in respect of		
– property, plant and equipment	213,208	156,529

(b) As set out in Note 1, Risun Chemicals and Beijing Risun Hongye were together engaged to manage the daily operation of the Hongye Chemical Enterprises since July 2019. As agreed in the entrusted operations management agreements, management fees will be calculated based on the stationed staff's labor cost, technical and shared service fees, production and sales volume, which includes the emoluments of the management of the Hongye Chemical Enterprises nominated by Beijing Risun Hongye.

29. INTERESTS IN SUBSIDIARIES

The Target Company

	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Capital injected *(Note 24)*	4,200,000	4,200,000

As at the date of this report, the Target Group has direct interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of subsidiary	Place and date of incorporation/ establishment	Class of shares held *RMB'000*	Shareholding/equity interest attributable to the Target Group at December 31, 2019	at June 30, 2020	at the date of this report	Principal activity
Shandong Fangming	The PRC/ July 4, 2002	Paid-in capital RMB388,000	100%	100%	100%	Production of refined chemicals
Shandong Dongju	The PRC/ October 30, 2003	Paid-in capital RMB388,970	100%	100%	100%	Production of refined chemicals
Shandong Hengshun	The PRC/ November 8, 2012	Paid-in capital RMB100,000	100%	100%	100%	Production of vapor
Shandong Hongda	The PRC/ September 12, 2008	Paid-in capital RMB422,000	100%	100%	100%	Production of coke, coking chemicals
Shandong Hongding	The PRC/ December 6, 2010	Paid-in capital RMB300,000	100%	100%	100%	Production of refined chemicals
Shandong Yongzhi	The PRC/ December 15, 2010	Paid-in capital RMB300,000	100%	100%	100%	Production of refined chemicals

Notes:

(i) No audited statutory financial statements have been prepared for these subsidiaries.

(ii) The English translation of the names is for reference only. The official names of these companies are in Chinese.

All of the above subsidiaries are directly held by the Target Company.

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

30. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE REPORTING PERIODS

The outbreak of COVID-19 and falling of oil price had negative impacts to the global economy, business environment and indirectly affected the chemical products' selling prices of the Target Group. As such, the financial positions and performance of the Target Group were affected in different aspects, including reduction in revenue and operating result of the refined chemicals as disclosed in Note 6.

31. EVENTS AFTER REPORTING PERIOD

Other than the events as disclosed in Note 19 and 25, subsequent to June 30, 2020, no significant event has taken place.

32. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to June 30, 2020.

The following is the text of a report set out on pages IIB-1-1 to IIB-1-48, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF 山東東巨化工股份有限公司 (SHANDONG DONGJU CHEMICAL CO., LTD.) TO THE DIRECTORS OF CHINA RISUN GROUP LIMITED

Introduction

We are engaged to report on the historical financial information of 山東東巨化工股份有限公司(Shandong Dongju Chemical Co., Ltd., the "Dongju Chemical", the "Target Company") set out on pages IIB-1-4 to IIB-1-48, which comprises the statements of financial position of the Target Company as at December 31, 2017, 2018 and 2019 and June 30, 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Reporting Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information of the Target Company"). The Historical Financial Information of the Target Company set out on pages IIB-1-4 to IIB-1-48 forms an integral part of this report, which has been prepared for inclusion in the circular of China Risun Group Limited (the "Company") dated December 8, 2020 (the "Circular") in connection with the proposed acquisition of the Target Company.

Responsibilities of the Directors of the Target Company and the Company

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

The directors of the Company are responsible for the content of this Circular in which the Historical Financial Information of the Target Company 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 conduct 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") and to report to you. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

We complied with ethical standards as required by this standard.

Disclaimer of Opinion on the Historical Financial Information of the Target Company

We do not express an opinion on the Historical Financial Information of the Target Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company

As set out in Note 2 to the Historical Financial Information of the Target Company, the Historical Financial Information of the Target Company was prepared based on incomplete accounting records. The auditor of the Underlying Financial Statements as defined on page IIB-1-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the bankruptcy administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

We were unable to carry out the procedures we considered necessary to assess the impact of the matter described on the Underlying Financial Statements to form a basis for an audit opinion on the Historical Financial Information. We were also unable to determine whether any adjustments might have been found necessary in respect of the Historical Financial Information of the Target Company.

Disclaimer of Conclusion on Stub Period Comparative Financial Information of the Target Company

We were engaged to review the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information of the Target Company"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information of the Target Company in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of the Target Company. Our responsibility is to conduct our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the

Independent Auditor of the Entity" issued by the HKICPA. Because of the significance of the matters described in the Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company section of our report, we were unable to obtain sufficient appropriate evidence to form a conclusion on the Stub Period Comparative Financial Information of the Target Company. Accordingly, we do not express a conclusion on the Stub Period Comparative Financial Information of the Target Company.

Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company

We were unable to carry out the procedures we considered necessary to assess the consequential impact of the matters described on the Underlying Financial Statements and the Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company section of our report to form a basis for a conclusion on the Stub Period Comparative Financial Information of the Target Company. We were also unable to determine whether any adjustments might have been found necessary in respect of the Stub Period Comparative Financial Information of the Target Company.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-1-4 have been made.

Dividends

No dividend was declared or paid by the Target Company in respect of the Reporting Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

December 8, 2020

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of the Historical Financial Information of the Target Company

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

The financial statements of the Target Company for the Reporting Periods, on which the Historical Financial Information of the Target Company is based, have been prepared by the directors of the Target Company (the "Directors") in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements") of which a disclaimer of opinion was issued as set out in Note 2.

The Historical Financial Information of the Target Company is presented in Renminbi ("RMB"), which is also the functional currency of the Target Company, and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended June 30,	
	Notes	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue from contracts with customers	6	1,164,391	1,170,167	638,453	344,738	585,792
Cost of sales		(1,145,206)	(1,126,726)	(632,132)	(297,307)	(587,570)
Gross profit (loss)		19,185	43,441	6,321	47,431	(1,778)
Other income	7	18,473	661	98	43	2
Other expense	8	(25,552)	(22,500)	(220,558)	(10,571)	(9,889)
Other gains and losses	9	124	9	(21,816)	21	224
Impairment losses, net of reversal	10	(3,094)	–	(1,406)	(5,688)	(35)
Selling and distribution expenses		(4,998)	(4,973)	(808)	(15)	(9,554)
Administrative expenses		(57,816)	(18,569)	(18,154)	(9,827)	(3,913)
(Loss) profit from operations		(53,678)	(1,931)	(256,323)	21,394	(24,943)
Finance costs	11	(92,281)	(75,392)	–	–	–
(Loss) profit before taxation	12	(145,959)	(77,323)	(256,323)	21,394	(24,943)
Taxation	14	–	–	(132,228)	–	–
(Loss) profit for the year/period		(145,959)	(77,323)	(388,551)	21,394	(24,943)
Total comprehensive (expense) income for the year/period		(145,959)	(77,323)	(388,551)	21,394	(24,943)
(Loss) profit for the year/period attributable to equity holder of the Target Company		(145,959)	(77,323)	(388,551)	21,394	(24,943)
Total comprehensive (expense) income for the year/period attributable to equity holder of the Target Company		(145,959)	(77,323)	(388,551)	21,394	(24,943)

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Notes	As at December 31, 2017 RMB'000	2018 RMB'000	2019 RMB'000	As at June 30, 2020 RMB'000
Non-current assets					
Property, plant and equipment	15	883,243	825,460	742,323	760,233
Right-of-use assets	16	–	–	35,662	35,238
Prepaid lease payments	17	36,511	35,663	–	–
		919,754	861,123	777,985	795,471
Current assets					
Prepaid lease payments	17	848	848	–	–
Inventories	18	89,298	56,854	30,565	70,124
Other receivables	19	110,419	91,472	90,319	71,112
Trade receivables	19	13,152	978	14	13,628
Amounts due from related parties	28(b)	1,005,676	117,562	332,617	431,467
Deposit in Administrator account	23	–	–	42,419	27,208
Restricted bank balances	20	57,500	–	–	–
Cash and cash equivalents	21	7,641	326	355	1,150
		1,284,534	268,040	496,289	614,689
Current liabilities					
Trade and other payables	24	850,466	53,106	120,980	27,122
Contract liabilities		–	–	–	211
Income tax payable		–	–	132,228	132,228
Restructuring debts	23	–	2,451,980	1,895,494	1,880,283
Bank and other loans	22	1,779,277	–	–	–
Amounts due to related parties	28(b)	226,551	49,477	139,523	409,210
		2,856,294	2,554,563	2,288,225	2,449,054
Net current liabilities		(1,571,760)	(2,286,523)	(1,791,936)	(1,834,365)
Total assets less current liabilities and net liabilities		(652,006)	(1,425,400)	(1,013,951)	(1,038,894)
Capital and reserves					
Share capital	25	388,970	388,970	388,970	388,970
Reserves	26	(1,040,976)	(1,814,370)	(1,402,921)	(1,427,864)
Total deficit attributable to equity holder of the Target Company		(652,006)	(1,425,400)	(1,013,951)	(1,038,894)
Total deficit		(652,006)	(1,425,400)	(1,013,951)	(1,038,894)

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company				
	Share capital	Capital Reserve	Reserve fund	Retained (losses) profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 25)	*(Note 26)*	*(Note 26)*	*(Note 26)*	
Balance at January 1, 2017	388,970	–	22	(895,039)	(506,047)
Loss for the year	–	–	–	(145,959)	(145,959)
Balance at December 31, 2017	388,970	–	22	(1,040,998)	(652,006)
Deemed capital reduction	–	(696,071)	–	–	(696,071)
Loss for the year	–	–	–	(77,323)	(77,323)
Balance at December 31, 2018	388,970	(696,071)	22	(1,118,321)	(1,425,400)
Capital contribution	–	800,000	–	–	800,000
Loss for the year	–	–	–	(388,551)	(388,551)
Balance at December 31, 2019	388,970	103,929	22	(1,506,872)	(1,013,951)
Loss for the period	–	–	–	(24,943)	(24,943)
Balance at June 30, 2020	388,970	103,929	22	(1,531,815)	(1,038,894)
Balance at January 1, 2019	388,970	(696,071)	22	(1,118,321)	(1,425,400)
Profit for the period	–	–	–	21,394	21,394
Balance at June 30, 2019 (unaudited)	388,970	(696,071)	22	(1,096,927)	(1,404,006)

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
(Loss) profit before taxation		(145,959)	(77,323)	(256,323)	21,394	(24,943)
Adjustments for:						
Other income		(18,473)	(661)	(98)	(43)	(2)
Other expense		1,296	1,338	201,281	–	–
Other gains or losses, net		–	–	23,069	–	–
Finance costs		92,281	75,392	–	–	–
Impairment losses, net of reversal		3,094	–	1,406	5,688	35
Depreciation		21,123	21,808	20,306	11,348	10,443
Operating cash flows before movements in working capital		(46,638)	20,554	(10,359)	38,387	(14,467)
Decrease/(increase) in inventories		4,964	77,522	71,401	41,484	(16,924)
Decrease/(increase) in trade receivables, and other receivables		1,271,072	30,263	525	(248,417)	5,558
(Decrease)/increase in trade and other payables and contract liabilities		(503,402)	(821,648)	67,822	(32,236)	(95,626)
(Increase)/decrease in amounts due from related parties		(1,005,676)	888,114	(215,055)	117,561	(98,850)
Increase /(decrease) in amounts due to related parties		218,955	(176,896)	97,464	84,388	261,961
Net cash (used in) generated from operating activities		(60,725)	17,909	11,798	1,167	41,652

		Year ended December 31,			Six months ended June 30,	
	Note	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Investing activities						
Purchases of property, plant and equipment		(32,500)	(43,232)	(4,449)	(1,102)	(48,585)
Interest received		4,319	661	98	43	2
Net cash used in investing activities		(28,181)	(42,571)	(4,351)	(1,059)	(48,583)
Financing activities						
New bank borrowings		329,137	100,000	–	–	–
Repayment of bank borrowings		(431,524)	(64,583)	–	–	–
Interest paid		(92,281)	(75,392)	–	–	–
Increase/(decrease) in amounts due to related parties		7,596	(178)	(7,418)	–	7,726
Withdraw of pledged bank deposits		282,500	57,500	–	–	–
Net cash generated from (used in) financing activities		95,428	17,347	(7,418)	–	7,726
Net increase (decrease) in cash and cash equivalents		6,522	(7,315)	29	108	795
Cash and cash equivalents at the beginning of the year/period		1,119	7,641	326	326	355
Cash and cash equivalents at the end of the year/period	21	7,641	326	355	434	1,150

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BANKRUPTCY RESTRUCTURING

Dongju Chemical was established in the People's Republic of China (the "PRC") on December 17, 2009 with limited liability. The registered office of the Target Company is Chemical Industry Park, Dongming County, Heze, Shandong Province, the PRC. The Target Company is engaged in the production, sale and distribution of refined chemicals (the "Core Business").

On September 28, 2018, Heze Intermediate People's Court in China (the "Court") appointed bankruptcy administrators (the "Administrators") for 洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd, "Hongye Chemical"), the ultimate holding company of the Target Company, its subsidiaries and certain other related companies (collectively referred to as the "Hongye Group Companies").

On July 31, 2019, the Court affirmed the restructuring proposal (the "Plan") which includes:

- the acquisition of the Hongye Group Companies including the Target Company, 山東方明化工股份有限公司 (Shandong Fangming Chemical Co., Ltd., the "Fangming Chemical") 山東恒順供熱有限公司 (Shandong Hengshun Heat Supply Co., Ltd., the "Hengshun Heat Supply"), 山東洪達化工有限公司 (Shandong Hongda Chemical Co., Ltd., the "Hongda Chemical"), 山東洪鼎化工有限公司 (Shandong Hongding Chemical Co., Ltd., the "Hongding Chemical") and 山東勇智化工有限公司 (Shandong Yongzhi Chemical Co., Ltd., the "Yongzhi Chemical") (collectively referred to as the "Hongye Chemical Enterprises") by Heze Jinda Asset Management Company ("Heze Jinda", the sole restructuring investor); and

- a capital restructuring and debt restructuring of the Hongye Group Companies, as well as injection of funds into the Hongye Chemical Enterprises to restructure its indebtedness adjudicated by the Administrators as set out in Note 23. According to the Plan and Article 46 of the "Enterprise Bankruptcy Law" of the PRC, all adjudicated creditor claims fell due and payable and all interest charges, if applicable, have been suspended effective from the date of the Court's affirmation of the Plan.

Since July 2019, 旭陽集團有限公司 (Risun Group Limited, "Risun Chemicals", formerly known as 旭陽化工有限公司 Risun Chemicals Limited) and its subsidiary 北京旭陽宏業化工有限公司 (Beijing Risun Hongye Chemicals Company Limited), subsidiaries of the Company, were jointly engaged to manage the daily operation of the Hongye Chemical Enterprises, including keeping the accounting records, on behalf of the Administrators.

On September 16, 2019, 蕪湖順日信澤股權投資合夥企業(有限合夥) (Wuhu Shunri Xinze Equity Investment Partnership (LP), "Shunri Xinze"), a subsidiary of the 中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd., "China Cinda"), entered into an agreement with Heze Jinda, the Administrators, and the Hongye Chemical Enterprises. Pursuant to the agreement, Shunri Xinze will be the parent company of the Hongye Chemical Enterprises by injecting RMB4,200 million into the Hongye Chemical Enterprises which are directly paid to Heze Jinda, of which RMB800 million is attributed to the Target Company as capital reserve.

On September 20, 2019, Shunri Xinze directly or indirectly acquired 100% of the registered capital of the Hongye Chemical Enterprises which then became wholly-owned subsidiaries of Shunri Xinze except for 1.23% equity interest in Fangming Chemical, which was transferred to Shunri Xinze on October 17, 2019.

On September 27, 2020, the Court affirmed the completion of the required restructuring actions under the Plan. The Administrators made the payment to the relevant creditors based on the Plan. The Target Company is considered to have discharged all its obligations under the Plan as set out in Note 34.

The Historical Financial Information of the Target Company has been prepared solely for the purpose of inclusion in the financial information to be incorporated in the Circular of pages IIB-1-4 to IIB-1-48 dated December 8, 2020. Therefore, the comparative figures for the year ended December 31, 2016 have not been prepared.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Effective from August 1, 2019, the Administrators have established accounting records and has prepared management accounts in accordance with accounting standards and regulations of the PRC.

For the period prior to August 1, 2019, the accounting records available to the Administrators were incomplete. As the Administrators did not exercise any control over the business, property and affairs of the Target Company prior to their appointment on September 28, 2018, they do not have the same level of knowledge of the financial affairs of the Target Company as the Target Company's then directors. In addition, the key management and staff responsible for maintaining the accounting records of the Target Company prior to August 1, 2019 had left the Target Company. Although the Administrators have used their best endeavor to access all accounting records of the Target Company, they are unable to verify that all transactions entered into by the Target Company prior to their appointment are complete and accurate. Accordingly, the Administrators were unable to satisfy themselves as to the completeness and accuracy in respect of opening balances, the potential claims, the commitments, the contingent liabilities and the pledge of assets in the management accounts prior to August 1, 2019.

Effective from August 1, 2019, the management of the Target Company has maintained accounting records and has prepared management accounts in accordance with the Accounting Standards for Business Enterprises issued by Ministry of Finance (the "MoF") and the implementation guidance, interpretations and other relevant provisions issued or revised subsequently by the MoF.

The Underlying Financial Statements are prepared by the Director for the purpose of the Circular, based on the management accounts and accounting policies set out in Note 4, which conform with the IFRSs issued by the IASB. The basis of accounting under IFRSs differs in certain respects from that used in the preparation of the Target Company's management accounts. In preparing the Underlying Financial Statements, appropriate adjustments to conform with IFRSs, which are not taken up in the management accounts of the Target Company, have been made to the Underlying Financial Statements. The auditor of the Underlying Financial Statements as defined on Page IIB-1-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the Administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

In preparing the financial statements as at June 30, 2020, the Directors have considered the net current liabilities position of the Target Company of RMB1,834,365,000, including RMB1,880,283,000 relating to outstanding adjudicated indebtedness, as disclosed in Note 23. As at September 27, 2020, the outstanding adjudicated indebtedness of RMB1,879,864,000 were discharged and waived as appropriate, based on the payment ratio stipulated in on the Plan and the Court's affirmation on the Plan's completion. Considering the discharge of the indebtedness, the Directors are of the opinion that the Target Company has sufficient financial resources to meet its working capital requirements and liabilities as and when they fall due for the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing and presenting the financial statements for the Reporting Periods, the Target Company has consistently applied IFRSs, which are effective for the accounting period beginning on January 1, 2020 throughout the Reporting Periods, except that the Target Company applied IFRS 9 "Financial Instruments" and IFRS 16 "Leases" from January 1, 2018 and January 1, 2019, respectively.

IFRS 9 Financial Instruments

The accounting policies for financial instruments which conform with IFRS 9 that are applicable from January 1, 2018 onwards and IAS 39 "Financial Instruments: Recognition and Measurement" which are applicable for the year ended December 31, 2017, are set out in Note 4 below.

The Target Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

The initial application of IFRS 9 has had no material impact on the classification and measurement of the Target Company's financial instruments as at January 1, 2018.

IFRS 16 Leases

The Target Company has applied IFRS 16 for the first time for the accounting period beginning on January 1, 2019. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

Definition of a lease

The Target Company has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Company has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Target Company applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Target Company has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Target Company applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts: elected not to recognize right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application or leases with low value.

The carrying amount of right-of-use assets for own use as at January 1, 2019 comprises the following:

		Right-of-use assets
		RMB'000
Reclassified from prepaid lease payment	(a)	36,511
By class:		
Leasehold land and land use rights		36,511

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, prepaid lease payments amounting to RMB36,511,000 were reclassified to right-of-use assets.

New and revised IFRSs in issue but not yet effective

The Target Company has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	COVID-19-Related Rent Concession[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[3]

[1] Effective for annual periods beginning on or after January 1, 2023
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after January 1, 2022
[4] Effective for annual periods beginning on or after June 1, 2020
[5] Effective for annual periods beginning on or after January 1, 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis as explained in the accounting policies below.

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 Company 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 financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases" or IFRS 16 "Lease", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

The Target Company recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the products or services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;
- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or
- the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or services.

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

A point in time revenue recognition

The revenue of the Target Company is recognized at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from sales of goods to the Target Company's customers in connection with the production of refined chemical are recognized when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

Leasing

The Target Company as a lessee (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease.

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 3)

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.

For contracts entered into or modified on or after the date of initial application, the Target Company assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3)

Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Target Company.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Target Company is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Company presents right-of-use assets that do not meet the definition of investment property as a separate line item on the statement of financial position.

The Target Company as a lessor (upon application of IFRS 16 in accordance with transitions in Note 3)

Classification and measurement of leases

Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the Lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Leases for which the Target Company is a lessor are classified as operating leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Target Company's ordinary course of business are presented as revenue.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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.

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

Government grants

Government grants are not recognized until there is a reasonable assurance that the Target Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Target Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit scheme contribution

Payable to retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, is recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognized as expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages, salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from (loss)/profit before taxation as reported in the statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (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 Company expects, at the end of each reporting period, to recover or settle the carrying amounts 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 by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income ("OCI") or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Target Company considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the 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 of goods or services, or for administrative purposes are carried at cost, less any recognized 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 and, for qualifying assets, borrowing costs capitalized in accordance with the Target Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Target Company makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" (before application of IFRS 16) or "right-of-use assets" (after application of IFRS 16) in the statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the costs (other than properties under construction) less their residual values over their 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.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the profit or loss in the period which the item is derecognized.

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

At the end of each reporting period, the Target Company reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that those 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 and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 (or the CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the CGU. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the CGU. An impairment loss is recognized immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using weighted average cost formula. Net realizable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments (before the adoption of IFRS 9 as at January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

Financial assets

The Target Company's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized and derecognized on the trade date, i.e., the date that the Target Company commits to purchase or sell the asset.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amounts due from related parties, restricted bank balances and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any identified impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from related parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance accounts are recognized in profit or loss. When a trade and other receivables and an amounts due from related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortized cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Target Company 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 instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities (including trade and other payables, amounts due to related parties and bank and other loans) are subsequently measured at amortized cost, using the effective interest method.

Derecognition

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

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

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial instruments (under IFRS 9 on or after January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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 IFRS 15. 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 amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the reporting 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 or 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 amortized cost:

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

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

Impairment under ECL model

The Target Company recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including other receivables, trade receivables, amounts due from related parties, deposits in Administrator account, cash and cash equivalents). The amount of ECL is updated at the end of each reporting period 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, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of each reporting period. Assessments are done based on the Target Company'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 end of each reporting period as well as the forecast of future conditions.

The Target Company always recognizes lifetime ECL for trade receivables and amounts due from related parties arising from contracts with customers. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except that significant or credit impaired balances are assessed individually.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood of risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

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

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

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

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

Definition of default

For internal credit risk management, the Target Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay all amounts due in accordance with the contractual terms.

Irrespective of the above, the Target Company considers that default has occurred when financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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 following events:

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;

- 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;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

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 adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Target Company recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and amounts due from related parties where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

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

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

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities at amortized cost, including trade and other payable, amounts due to related parties, and the restructuring debts, are initially measured at fair value, net of transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

Derecognition/modification of financial liabilities

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Target Company accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Target Company) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Target Company considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities is calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, which are described in Note 4, the Directors are required to make 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates 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 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 are as follows:

Key sources of estimation uncertainty

Useful life and impairment of property, plant and equipment

In determining whether an asset is impaired, the management requires an estimation of recoverable amount of an individual asset or the CGUs to which the asset belongs, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the assets, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset's value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the CGUs to which the assets belongs.

Changing the assumptions selected by management to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses as at December 31, 2017, 2018 and 2019 and June 30, 2020 were RMB883,243,000, RMB825,460,000, RMB742,323,000 and RMB760,233,000, respectively.

Estimated impairment of doubtful receivables

The Target Company recognizes lifetime ECL since January 1, 2018 for trade receivables assessing individually for debtors with significant or credit impaired balances or collectively using a provision matrix by appropriate groupings. In addition, the Target Company recognizes lifetime ECL for other receivables when there has been a significant increase in credit risk since initial recognition. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. Further details are included in Note 30.

Taxation

Determining tax provisions involves judgement on the future tax treatments of certain transactions. The Target Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account of all changes in tax legislations.

Due to the change of management team and the restructuring proposal for the Target Company in the past few years as set out in Note 1, the Directors have exercised judgement in estimating the outcome of the tax exposure. Should the tax losses and/or relevant allowance be approved by the local tax authorities, it would have a corresponding adjustments on other gains and losses, income tax payables as set out in Note 14.

6. REVENUE AND SEGMENT INFORMATION

During the Reporting Periods, the Target Company's revenue represents the amount received and receivable from the sales of goods to external customers arising from the sale of refined chemicals and rental of property, plant and equipment. The revenue is recognized at a point in time when the customers obtain control of the goods delivered.

All sales/trading from contracts with customers are for period of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods delivered. Specifically, the Target Company's reportable segments under IFRS 8 are as follows:

Refined chemicals and rental segment: the purchase of coking chemicals from the third parties, and processing such coking chemicals into refined chemical products, as well as marketing and selling such refined chemicals and the leasing of its property, plant and equipment to the Hongye Chemical Enterprises.

The Target Company currently operates in one business segment. A single management team reports to the CODM who comprehensively manage the entire business. For the period from December 31, 2017 to June 30, 2020, there was only one business carried out by the Target Company and all of the Target Company's assets are derived and located in the PRC. Therefore, the Directors concluded that the Target Company is operated in a single reportable segment and no further analysis for segment information is presented.

The following is an analysis of the Target Company's revenue:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income	–	–	–	–	138
Revenue from contract with customers					
Sale of refined chemicals	1,164,391	1,170,167	638,453	344,738	585,654
	1,164,391	1,170,167	638,453	344,738	585,792

7. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	18,473	661	98	43	2

8. OTHER EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss on bankruptcy restructuring *(note a)*	–	–	201,281	–	–
Loss on bankruptcy claims *(note b)*	1,296	1,338	–	–	–
Expenses on suspension of production *(note c)*	19,870	20,630	19,172	10,571	9,889
Others	4,386	532	105	–	–
	25,552	22,500	220,558	10,571	9,889

Notes:

a. The debt of the Hongye Group Companies determined by the Court allocated to the Target Company by reference to the proportion of the capital contribution to the Hongye Group Companies on a pro-rata basis, in excess of the Target Company's own debt originally recorded.

b. Penalty interest and fine related to overdue debt.

c. Expense including depreciation of property, plant and equipment incurred in relation to suspension of a production line during the relevant periods.

9. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Impairment of property, plant and equipment	–	–	(23,069)	–	–
Debts waived *(note)*	–	–	556	–	–
Others	124	9	597	21	224
	124	9	(21,816)	21	224

Note: On June 30, 2020, the Hongye Chemical Enterprises and the Hongye Group Companies other than the Hongye Chemical Enterprises (the "Other Hongye Companies") entered into a waiver agreement to reiterate the waiver of the net balance as at December 31, 2019. Debt waived represents the waiver of the net amounts owing to the Other Hongye Companies.

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net impairment losses recognized in respect of:					
Trade and other receivables *(Note 19)*	(3,094)	–	(1,406)	(5,688)	(35)

11. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank loans	90,743	75,392	–	–	–
Finance expenses on bills receivable discounted	1,538	–	–	–	–
	92,281	75,392	–	–	–

All interest charges have been suspended effective from September 28, 2018 onwards. Please refer to the Plan as set out in Note 1 for details.

12. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation is arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Staff costs					
Salaries, wages and other benefits	24,411	31,554	35,145	18,799	14,078
Contributions to retirement benefits scheme	3,148	2,388	2,595	1,240	672
	27,559	33,942	37,740	20,039	14,750
Less: Capitalized in inventories	(26,597)	(33,216)	(29,900)	(14,249)	(14,320)
	962	726	7,840	5,790	430
Other items					
Depreciation of property, plant and equipment	27,055	66,038	64,569	31,536	32,654
Amortization of prepaid lease payment	848	848	–	–	–
Depreciation of right-of-use assets	–	–	849	424	424
Total depreciation and amortization	27,903	66,886	65,418	31,960	33,078
Less: Capitalized in inventories	(6,780)	(45,078)	(45,112)	(20,612)	(22,635)
	21,123	21,808	20,306	11,348	10,443
Cost of inventories recognized as an expense	1,145,206	1,126,726	632,132	297,307	587,570

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

During the Reporting Periods, no emolument was paid to the Directors, which include Wei Yongli, Zhang Yinshu, Sun Shutian, Xue Jianjiang, Chen Jianhua who resigned on September 20, 2019, and Li Lei, Liu Yi, Yue Wenjie, Yang Fuli, Shi Feng who were appointed on September 20, 2019.

Five highest paid individuals

The five highest paid individuals of the Target Company during the Reporting Periods included no directors whose emoluments are disclosed above. The emoluments in respect of the highest paid individuals during the Reporting Periods are as follows:

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, wages and other benefits	344	472	737	389	334
Contributions to retirement benefits scheme	30	33	32	18	3
	374	505	769	407	337

The remunerations of the five highest paid employees are within the following bands:

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Nil to HK$1,000,000	5	5	5	5	5

During the Reporting Periods, no amount was paid or payable by the Target Company to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office.

14. TAXATION

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current tax					
PRC income tax for the year/period	–	–	132,228	–	–

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for the Target Company is 25% for the Reporting Periods.

Taxation for the year/period can be reconciled to the (loss) profit before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
(Loss) profit before taxation	(145,959)	(77,323)	(256,323)	21,394	(24,943)
Tax at the PRC tax rate of 25%	(36,490)	(19,331)	(64,081)	5,349	(6,236)
Tax effect on:					
Non-deductible expenses	11,092	145	29,198	1,156	–
Unused tax losses and temporary differences not recognized	25,398	19,186	167,111	–	6,236
Utilisation of tax losses previously not recognized	–	–	–	(6,505)	–
Taxation for the year/period	–	–	132,228	–	–

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the Target Company has deductible temporary differences of approximately RMB3,094,000, RMB3,094,000, RMB4,500,000 and RMB4,535,000, respectively, which are mainly arising from impairment of trade and other receivables of the Target Company. No deferred tax asset has been recognized in relation to such temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilized.

The Directors resubmitted the tax filing to the relevant tax authorities for the past few years, however the tax losses and relevant allowance cannot be ascertained up to the report date.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Machinery and equipment	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At January 1, 2017	336,156	752,463	765	12,787	–	1,102,171
Additions	17,012	15,488	–	–	–	32,500
At December 31, 2017	353,168	767,951	765	12,787	–	1,134,671
Additions	–	8,255	–	–	–	8,255
At December 31, 2018	353,168	776,206	765	12,787	–	1,142,926
Additions	–	2,398	–	13	2,090	4,501
At December 31, 2019	353,168	778,604	765	12,800	2,090	1,147,427
Additions	–	193	–	74	50,297	50,564
Transfer from construction in progress	–	1,848	–	–	(1,848)	–
At June 30, 2020	353,168	780,645	765	12,874	50,539	1,197,991
Depreciation and impairment						
At January 1, 2017	37,967	184,672	203	1,531	–	224,373
Depreciation	13,148	11,775	145	1,987	–	27,055
At December 31, 2017	51,115	196,447	348	3,518	–	251,428
Depreciation	13,421	51,261	145	1,211	–	66,038
At December 31, 2018	64,536	247,708	493	4,729	–	317,466
Depreciation	13,252	50,048	145	1,124	–	64,569
Impairment	7,161	15,908	–	–	–	23,069
At December 31, 2019	84,949	313,664	638	5,853	–	405,104
Depreciation	6,544	25,512	64	534	–	32,654
At June 30, 2020	91,493	339,176	702	6,387	–	437,758
Carrying amounts						
At December 31, 2017	302,053	571,504	417	9,269	–	883,243
At December 31, 2018	288,632	528,498	272	8,058	–	825,460
At December 31, 2019	268,219	464,940	127	6,947	2,090	742,323
At June 30, 2020	261,675	441,469	63	6,487	50,539	760,233

The above items of property, plant and equipment, other than construction in progress, after taking into account their estimated residuals, are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Machinery and equipment	5–30 years
Motor vehicles	3–12 years
Office equipment	2–15 years

Details of the pledged property, plant and equipment are set out in Note 32.

At December 31, 2017, 2018, 2019 and June 30, 2020 building ownership certificates in respect of Leasehold land and buildings of the Target Company with an aggregate carrying amount of RMB46,393,000, RMB44,360,000, RMB42,318,000 and RMB41,297,000 had not been issued by the relevant PRC authorities. All leasehold land and buildings are located in the PRC.

16. RIGHT-OF-USE ASSETS

	Leasehold lands
	RMB'000
Carrying amount as at January 1, 2019	36,511
Depreciation charge	(849)
As at December 31, 2019	35,662
Depreciation charge	(424)
As at June 30, 2020	35,238

17. PREPAID LEASE PAYMENTS

Movements in the prepaid lease payments, which represent land use rights in the PRC, during the Reporting Periods are analyzed as follows:

	Year ended December 31,	
	2017	**2018**
	RMB'000	*RMB'000*
At the beginning of the reporting period	38,207	37,359
Released to profit or loss	(848)	(848)
At the end of the reporting period	37,359	36,511
Analyzed for reporting purpose as:		
Non-current assets	36,511	35,663
Current assets	848	848

18. INVENTORIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	60,512	52,759	23,729	46,327
Finished goods	28,786	4,095	6,836	23,797
	89,298	56,854	30,565	70,124

19. OTHER RECEIVABLES/TRADE RECEIVABLES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	13,155	981	129	13,743
Less: impairment	(3)	(3)	(115)	(115)
	13,152	978	14	13,628
Prepayments for raw materials	21,307	21,014	43,306	23,812
Other deposits, prepayments and other receivables	3,541	3,179	4,455	4,464
Deductible input Value Added Tax and prepaid other taxes and charges	88,662	70,370	46,943	47,256
Less: impairment	(3,091)	(3,091)	(4,385)	(4,420)
	110,419	91,472	90,319	71,112

Aging of trade receivables net of allowance for bad debts based on invoice dates, which approximated the respective revenue recognition dates, are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	13,152	861	–	6
1 to 3 months	–	117	8	–
3 to 6 months	–	–	1	13,616
6 to 12 months	–	–	5	6
	13,152	978	14	13,628

The table below is analysis of trade receivables as at December 31, 2017 under IAS 39:

	As at December 31, 2017
	RMB'000
Not past due and not impaired	–
Past due but not impaired	13,152
Total trade receivables	13,152

Starting from January 1, 2018, the Target Company applied the ECL model prescribed by IFRS 9, and the impairment methodology of ECL model is set out in Note 30.

The movements in the allowance for doubtful debts are as follows:

	Year ended December 31,			**Six months ended June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	–	3,094	3,094	4,500
Impairment losses recognized on receivables	3,094	–	1,406	35
At the end of the reporting period	3,094	3,094	4,500	4,535

20. RESTRICTED BANK BALANCES

The carrying amounts of the Target Company's restricted bank balances placed to secure various liabilities of the Target Company are as follow:

	As at December 31,			**As at June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Restricted deposits for bills	57,500	–	–	–

	As at December 31,			**As at June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analyzed as:				
Current assets	57,500	–	–	–

Restricted bank balances are deposited with banks in the PRC. The deposits carry interest at market rates 1.75% per annum as at December 31, 2017.

21. CASH AND CASH EQUIVALENTS

Bank balances carried interest at market interest rates ranging from 0.3% to 0.35% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Bank balances and cash as at December 31, 2017, 2018 and 2019 and June 30, 2020 were denominated in RMB.

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	7,641	326	355	1,150

22. BANK AND OTHER LOANS

The analysis of the carrying amount of bank and other loans is as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– Secured	1,747,096	–	–	–
Other loans				
– Secured	32,181	–	–	–
	1,779,277	–	–	–

At the end of each reporting period, the bank and other loans were payable as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,779,277	–	–	–
Analyzed for reporting purpose as:				
Current liabilities	1,779,277	–	–	–

The bank and other loans carry interest at the rates ranging from 2.00% to 5.00% per annum.

In 2017, the Target Company breached the covenants in a loan agreement, which are primarily related to the debt-equity ratio of the Target Company. The carrying amounts of bank and other loans that are repayable on demand due to breach of loan covenants were shown under current liabilities.

According to the judgment made by the Court on September 28, 2018, all bank and other loans were reclassified to restructuring debts as set out in Note 23.

23. RESTRUCTURING DEBTS

	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*
Salaries payable *(note a)*			
– trade and other payables	22,710	7,845	4,161
Secured and unsecured debts confirmed by the Administrators *(notes b and c)*			
– trade and other payables	423,872	350,412	338,885
– bank and other loans *(Note 22)*	1,888,848	1,420,687	1,420,687
	2,312,720	1,771,099	1,759,572
Unconfirmed debts by the Administrators *(note d)*			
– trade and other payables	116,494	116,494	116,494
– bank and other loans *(Note 22)*	56	56	56
	116,550	116,550	116,550
	2,451,980	1,895,494	1,880,283

Restructuring debts represent indebtedness entering into adjudication process effective from September 28, 2018 and the debts affirmed by the Court on July 31, 2019 after due adjudication by the Administrators.

According to the Plan disclosed in Note 1, the adjudicated indebtedness below are to be settled based on the payment sequence and ratio stipulated in the Plan, using the funds injected by Shunri Xinze, with the balance to be discharged upon the completion of such payment and the Court's affirmation of such completion. The relevant indebtedness includes:

(a) the taxes payable and salaries payable which will be paid in full;

(b) secured debts, if any, will be paid at a percentage of the realized value of the pledged assets and the unpaid portion will be fulfilled together with other unsecured debts;

(c) unsecured debts less than RMB200,000 which will be paid in full and unsecured debts more than RMB200,000 which will be paid at ratio of 11.13% according to the Plan; and

(d) unconfirmed debts, which consist of debts pending for endorsement by creditors and the Court as well as potential creditor claims yet to be received, will be paid in accordance with the Plan for the similar indebtedness.

The total estimated indebtedness affirmed by the Court is approximately RMB2,451,980,000 as at September 28, 2018. As disclosed in Note 34, the Court affirmed on September 27, 2020 the completion of the Plan including the payment made by Shunri Xinze in September 2019, out of which the Administrators paid the debts claimants in accordance with the Plan. The resulting gain of RMB1,853,261,000, being the balance of the indebtedness waived and discharged in line with the Plan, is considered by the Directors as an non-adjusting subsequent event. As of the date of September 27, 2020, the balance of fund in Administrator account amounted to RMB26,789,000.

24. TRADE AND OTHER PAYABLES

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	208,160	43,945	116,049	18,494
Bills payable	173,680	–	–	–
Payables for construction in progress	35,173	196	248	2,227
Other payables and accruals	433,453	8,965	4,683	6,401
	850,466	53,106	120,980	27,122

Trade and other payables are generally expected to be settled within one year.

The following is an aging analysis of trade payables based on the invoice date at the end of each reporting period:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	82,359	43,945	476	–
3 to 6 months	23,975	–	1	–
7 to 12 months	8,220	–	108,928	3,940
1–2 years	39,898	–	6,644	14,554
2–3 years	21,580	–	–	–
More than 3 years	32,128	–	–	–
	208,160	43,945	116,049	18,494

According to the judgment made by the Court on September 28, 2018, the carrying value of trade and other payables as at September 28, 2018 were reclassified to restructuring debt as set out in Note 23.

25. SHARE CAPITAL

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Presented in the statements of financial position as:	388,970	388,970	388,970	388,970

26. RESERVES

Capital reserve

In 2018, the change of capital reserve represents the net amount owning to the Target Company of RMB696,071,000 waived according to the waiver agreements within the Hongye Group Companies which was accounted for as a deemed capital reduction and recognized in capital reserve.

In 2019, the addition of capital reserve represents capital injection amounting to RMB800,000,000 from Shunri Xinze as set out in Notes 1 and 23.

Reserve fund

The Articles of Association of the Target Company require the appropriation of 10% of their profit after tax, based on their statutory audited financial statements, to the reserve fund each year until the balance reaches 50% of the registered capital of the Target Company. The reserve fund may be capitalized as the paid-in capital.

27. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the Target Company participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities whereby the Target Company is required to make contributions to the Schemes based on applicable rates. The municipal government authorities are responsible for the entire pension obligations payable to retired employees.

The Target Company has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

28. RELATED PARTY TRANSACTIONS AND BALANCES

Prior to September 20, 2019, the following entities were considered as the related companies of the Target Company:

Name of related party	Relationship with the Target Company
洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd)	Ultimate holding company in Other Hongye Companies
山東洪業如松化工設備安裝有限公司 (Shandong Hongye Rusong Chemical Equipment Installation Co., Ltd)	*note b*
山東吉昌化工有限責任公司 (Shandong Jichang Chemical Co., Ltd)	*note b*
菏澤開發區洪源小額貸款有限公司 (Heze Development Zone Hongyuan Small Loan Co., Ltd)	*note b*
菏澤市洪源供水有限公司 (Heze Hongyuan Water Supply Co., Ltd)	*note b*
菏澤洪方商貿有限公司 (Heze Hongfang Trading Co., Ltd)	*note b*
上海洪魯國際貿易有限公司 (Shanghai Honglu International Trade Co., Ltd)	*note b*
上海多凱國際貿易有限公司 (Shanghai Duokai International Trade Co., Ltd)	*note b*
上海洪魯化工技術有限公司 (Shanghai Honglu Chemical Technology Co., Ltd)	*note b*
山東天秀化工貿易有限公司 (Shandong Tianxiu Chemical Trade Co., Ltd)	*note b*
山東吉安化工有限公司 (Shandong Ji'an Chemical Co., Ltd)	*note b*
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明藥業集團股份有限公司 (Shandong Fangming Pharmaceutical Group Co., Ltd)	*note c*
菏澤市方明製藥有限公司 (Heze Fangming Pharmaceutical Co., Ltd)	*note c*
上海眾諾國際貿易有限公司 (Shanghai Zhongnuo International Trade Co., Ltd)	*note c*
山東方明邦嘉製藥有限公司 (Shandong Fangming Bangjia Pharmaceutical Co., Ltd)	*note c*
東明縣洪方化工科技服務有限公司 (Dongming Hongfang Chemical Technology Service Co., Ltd)	*note c*
菏澤堯舜牡丹生物科技有限公司 (Heze Yaoshun Peony Biotechnology Co., Ltd)	*note c*

Name of related party	Relationship with the Target Company
菏澤堯舜酒店管理有限公司 (Heze Yaoshun Hotel Management Co., Ltd)	*note c*
菏澤市中小企業融資擔保有限公司 (Heze SME Financing Guarantee Co., Ltd)	*note c*
山東洪方精細化工有限公司 (Shandong Hongfang Fine Chemical Co., Ltd)	*note c*
山東東藥藥業股份有限公司 (Shandong Dongyao Pharmaceutical Co., Ltd)	*note c*
菏澤萊佛生物科技有限公司 (Heze Laifo Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
菏澤百奧靈生物科技有限公司 (Heze Baiaoling Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
山東洪豐麵粉有限公司 (Shandong Hongfeng Flour Co., Ltd)	*note c*
開封天池化工有限公司 (Kaifeng Tianchi Chemical Co., Ltd)	*note c*

Note a: According to the Plan set out in Note 1, certain entities ceased to be a related company of the Target Company from September 20, 2019 onwards.

Note b: Fellow subsidiary in the Other Hongye Companies.

Note c: Entity controlled by the then ultimate beneficial owner in the Other Hongye Companies.

Note d: According to the Plan, the related party balances as at September 28, 2018 were waived within the Hongye Group Companies.

Subsequent to September 20, 2019, the following entities were considered as the related companies of the Target Company.

Name of related party	Relationship with the Target Company
中國信達資產管理股份有限公司 (China Cinda)	Ultimate holding company
蕪湖順日信澤股權投資合夥企業(有限合夥) (Shunri Xinze)	Immediate holding company
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

Other than the transactions disclosed in Note 1, 23 and 26 in the Historical Financial Information, the Target Company entered into the following material related party transactions:

(a) Transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchases of goods from					
– Fellow subsidiaries	858,550	781,272	304,788	163,175	460,790
– Other Hongye Companies	153,470	802	1,014	654	–
Sales of goods to					
– Fellow subsidiaries	814,644	770,920	624,891	335,226	285,565
– Other Hongye Companies	251,657	1,322	–	–	–
Administrative fee to					
– Other Hongye Companies	5,895	11,089	7,714	5,429	–
Rental revenue					
– Fellow subsidiaries	–	–	–	–	138

The above related party transactions were conducted in accordance with terms of the relevant agreements.

(b) Balances with related parties

At the end of each reporting period, the Target Company had the following balances with related parties:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
Non-trade nature				
– Fellow subsidiaries	–	–	231,010	231,000
– Other Hongye Companies	171,330	–	–	–
	171,330	–	231,010	231,000
Trade nature – receivables				
– Fellow subsidiaries	–	117,562	–	200,457
– Other Hongye Companies	59	–	–	–
	59	117,562	–	200,457
Prepayments				
– Fellow subsidiaries	819,951	–	101,607	–
– Other Hongye Companies	14,336	–	–	–
	834,287	–	101,607	–
Analyzed for reporting purposes as:				
Current portion	1,005,676	117,562	332,617	431,467

Aging of amounts due from related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	–	117,562	–	176,304
1 to 3 months	–	–	–	24,153
3 to 6 months	–	–	–	–
Above 3 years	59	–	–	–
	59	117,562	–	200,457

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to related parties				
Non-trade nature				
– Fellow subsidiaries	–	7,417	–	7,726
– Other Hongye Companies	7,596	–	–	–
	7,596	7,417	–	7,726
Trade nature – payables				
– Fellow subsidiaries	200,107	42,060	139,523	401,484
– Other Hongye Companies	2,050	–	–	–
	202,157	42,060	139,523	401,484
Advances received for sales of goods				
– Fellow subsidiaries	–	–	–	–
– Other Hongye Companies	16,798	–	–	–
	16,798	–	–	–
Analyzed for reporting purposes as:				
Current portion	226,551	49,477	139,523	409,210

Aging of amounts due to related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	9,120	–	–	–
1 to 3 months	27,738	42,060	139,523	401,484
4 to 6 months	32,316	–	–	–
7 to 12 months	58,531	–	–	–
1–2 years	73,132	–	–	–
2–3 years	1,320	–	–	–
	202,157	42,060	139,523	401,484

29. CAPITAL MANAGEMENT

The Target Company's primary objectives of managing capital are to safeguard the Target Company's ability to continue as a going concern, and to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions.

Based on recommendations of the board of directors, the Target Company will balance its overall capital structure through adjusting the amount of dividends paid to shareholders, issues of new shares, raise new debt financing or selling assets to reduce debt. During the Reporting Periods, the objectives, policies or processes were changed from July 31, 2019 onwards, upon the engagement of the Risun Chemicals as the operation agent as per agreement.

The Target Company monitors capital with reference to its debt position. The Target Company's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligation.

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of each reporting period are set out as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Target Company				
Financial assets				
Loans and receivables (including cash and cash equivalents)	250,132	–	–	–
Financial assets at amortized cost	–	118,954	273,868	473,497
Financial liabilities				
Financial liabilities at amortized cost	2,821,972	2,525,778	2,144,157	2,308,622

Financial risk management objectives and policies

The Target Company's major financial instruments include trade receivables, other receivables, amounts due from related parties, deposit in Administrator account, restricted bank balances, cash and cash equivalents, trade and other payables, restructuring debts, amounts due to related parties, and bank and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. From July 31, 2019 onwards, the management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

For the year ended December 31, 2019 and the period ended June 30, 2020, the Director(s) consider that the interest rate risk of the Target Company is limited as the finance charges has been suspended. Please refer to the Plan as set out in Note 1 for details.

Due to incomplete record, change of management team and the Plan as set out in Note 1, in management's opinion, the disclosures of interest rate risk for the years ended December 31, 2017 and 2018 are unrepresentative as the year-end exposure does not reflect the exposure of the Target Company during the relevant years. Thus, no disclosure were prepared.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Company's counterparties default on their contractual obligations resulting in financial losses to the Target Company. The Target Company's credit risk exposures are primarily attributable to trade receivables, other receivables, restricted bank balances, cash and cash equivalents, amounts due from related parties and deposit in Administrator account. The Target Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

At the end of each reporting period, other than financial assets whose carrying amounts best represent the maximum credit risk, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the amount of contingent liabilities disclosed in Note 33.

In order to minimize the credit risk, the Target Company mainly conducted transactions with customers with good quality, when accepting new customers, the Target Company requests advanced payment before the goods delivered.

To manage risk arising from bank balances, the Target Company mainly transacts with state-owned or reputable financial institutions in PRC. There has been no recent history of default in relation to these financial institutions. Therefore the management of the Target Company considers the credit risk arising from cash and cash equivalents, restricted bank balances is insignificant.

The Target Company does not have any significant concentration of credit risk, as at December 31, 2017, 2018 and 2019, with exposure spread over a large number of counterparties and customers. As at June 30, 2020, the Target Company has concentration of credit risk as 99.01% of trade receivables were due from Risun Chemicals and its subsidiaries.

For trade receivables and amounts due from related parties of trade nature, the Target Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The ECL on these assets are assessed individually for debtors with significant or credit-impaired balances or collectively using a provision matrix by appropriate groupings. As part of the Target Company's credit risk management, the Target Company uses debtors' aging to assess the impairment for its customers because its customers share common risk characteristics that are representative of the customers' abilities to pay the amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted using forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

For all other instruments including, other receivables, deposit in Administrator account and amounts from related parties of non-trade nature, the Target Company measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The Target Company has assessed and concluded that the risk of default rate for these instruments is steady based on the Target Company's assessment of the financial health of the counterparties.

The tables below detail the credit risk exposures of the Target Company's trade and other receivables, deposit in Administrator account and amounts due from related parties, which are subject to ECL assessment:

	Notes	Internal credit rating	12-month or lifetime ECL	December 31, 2018 Gross carrying amount		December 31, 2019 Gross carrying amount		June 30, 2020 Gross carrying amount	
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortized cost									
Other receivables	19	*Note*	12-month ECL	88		70		44	
			Credit-impaired (individually)	3,091	3,179	4,385	4,455	4,420	4,464
Deposit in administrator account	23	*Note*	12-month ECL	–	–	42,419	42,419	27,208	27,208
Amounts due from related parties	28	*Note*	12-month ECL	–		231,010		–	
			Not Credit-impaired (individually)	117,562	117,562	–	231,010	431,467	431,467
Trade receivables	19	*Note*	Not Credit-impaired (individually)	–		–		13,607	
			Lifetime ECL (provision matrix)	978		14		21	
			Credit-impaired (individually)	3	981	115	129	115	13,743

Note: These balances are unsecured and with no fixed repayment terms. Set out below is the impairment provision of the financial assets.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables and amounts due from related parties of trade nature under the simplified approach:

	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2018 and December 31, 2018	–	3	3
– Impairment losses recognized	–	112	112
At December 31, 2019 and June 30, 2020	–	115	115

The credit risk of trade receivables based on the Target Company's provision matrix were insignificant.

The trade receivables with gross carrying amounts of RMB3,000, RMB115,000 and RMB13,722,000 as at December 31, 2018, December 31, 2019 and June 30, 2020, respectively, were assessed individually, and impairment allowance of RMB3,000, RMB115,000 and RMB115,000 were made on these debtors.

The following table shows reconciliation of loss allowances that have been recognized for other receivables:

	12-month ECL *RMB'000*	Lifetime ECL (not credit impaired) *RMB'000*	Lifetime ECL (credit impaired) *RMB'000*	Total *RMB'000*
As at January 1, 2018 and December 31, 2018	–	–	3,091	3,091
– Impairment losses recognized	–	–	1,294	1,294
As at December 31, 2019	–	–	4,385	4,385
– Impairment losses recognized	–	–	35	35
As at June 30, 2020	–	–	4,420	4,420

Liquidity risk

The Directors are responsible for cash management of the Target Company, including the raising of loans to cover expected cash demands. The Target Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

At the end of each reporting period, almost all remaining contractual maturities of the Target Company's financial liabilities were within one year.

Fair values

Fair values of financial instruments carried at amortized cost

Except for the fair values of the restructuring debts, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information of the Target Company approximate their fair values due to short maturity or with floating interest rates. The fair values of restructuring debts amounting to RMB42,233,000 and RMB27,022,000 as at December 31, 2019 and June 30, 2020, respectively, are evaluated based on the future cash flow of restructuring debts in accordance with of the Plan and the investment agreement.

31. COMMITMENTS

Capital commitments outstanding at the end of each reporting period not provided for in the Historical Financial Information of the Target Company were as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure in respect of				
– property, plant and equipment	–	–	5,528	5,528

32. PLEDGE OF ASSETS

At the end of each reporting period, certain assets were pledged to secure banking facilities granted to the Target Company and their carrying amounts are as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	487,281	411,617	–	–
Prepaid lease payments	37,359	36,511	–	–
	524,640	458,128	–	–

According to the judgment made by the Court on July 31, 2019, all assets pledged to the financial institutions were released during the year of 2019.

33. CONTINGENT LIABILITIES

Undeclared claims of the Target Company

According to the Plan, the undeclared creditors, of which no provision was made by the Target Company, will have right to request payment within two years after the completion of the Plan on September 27, 2020. The Directors believe, based on the indemnity provided by Heze Jinda, that further payment to be made by the Target Company is remote and therefore no further provision is required.

34. EVENTS AFTER REPORTING PERIODS

As disclosed in Note 23, the Court affirmed the completion of the Plan on September 27, 2020.

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to June 30, 2020.

The following is the text of a report set out on pages IIB-2-1 to IIB-2-52, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF 山東方明化工股份有限公司 (SHANDONG FANGMING CHEMICAL CO., LTD.) TO THE DIRECTORS OF CHINA RISUN GROUP LIMITED

Introduction

We are engaged to report on the historical financial information of 山東方明化工股份有限公司 (Shandong Fangming Chemical Co., Ltd., the "Fangming Chemical", the "Target Company") set out on pages IIB-2-4 to IIB-2-52, which comprises the statements of financial position of the Target Company as at December 31, 2017, 2018 and 2019 and June 30, 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Reporting Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information of the Target Company"). The Historical Financial Information of the Target Company set out on pages IIB-2-4 to IIB-2-52 forms an integral part of this report, which has been prepared for inclusion in the circular of China Risun Group Limited (the "Company") dated December 8, 2020 (the "Circular") in connection with the proposed acquisition of the Target Company.

Responsibilities of the Directors of the Target Company and the Company

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

The directors of the Company are responsible for the content of this Circular in which the Historical Financial Information of the Target Company 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 conduct 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") and to report to you. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

We complied with ethical standards as required by this standard.

Disclaimer of Opinion on the Historical Financial Information of the Target Company

We do not express an opinion on the Historical Financial Information of the Target Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company

As set out in Note 2 to the Historical Financial Information of the Target Company, the Historical Financial Information was prepared based on incomplete accounting records. The auditor of the Underlying Financial Statements as defined on page IIB-2-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the bankruptcy administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

We were unable to carry out the procedures we considered necessary to assess the impact of the matter described on the Underlying Financial Statements to form a basis for an audit opinion on the Historical Financial Information. We were also unable to determine whether any adjustments might have been found necessary in respect of the Historical Financial Information of the Target Company.

Disclaimer of Conclusion on Stub Period Comparative Financial Information of the Target Company

We were engaged to review the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information of the Target Company"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information of the Target Company in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of the Target Company. Our responsibility is to conduct our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Because of the significance of the

matters described in the Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company section of our report, we were unable to obtain sufficient appropriate evidence to form a conclusion on the Stub Period Comparative Financial Information of the Target Company. Accordingly, we do not express a conclusion on the Stub Period Comparative Financial Information of the Target Company.

Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company

We were unable to carry out the procedures we considered necessary to assess the consequential impact of the matters described on the Underlying Financial Statements and the Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company section of our report to form a basis for a conclusion on the Stub Period Comparative Financial Information of the Target Company. We were also unable to determine whether any adjustments might have been found necessary in respect of the Stub Period Comparative Financial Information of the Target Company.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-2-4 have been made.

Dividends

No dividend was declared or paid by the Target Company in respect of the Reporting Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

December 8, 2020

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of the Historical Financial Information of the Target Company

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

The financial statements of the Target Company for the Reporting Periods, on which the Historical Financial Information of the Target Company is based, have been prepared by the directors of the Target Company (the "Directors") in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements") of which a disclaimer of opinion was issued as set out in Note 2.

The Historical Financial Information of the Target Company is presented in Renminbi ("RMB"), which is also the functional currency of the Target Company, and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2017	2018	2019	Six months ended June 30, 2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue from contracts with customers	6	1,624,797	2,024,989	1,519,392	794,590	546,472
Cost of sales		(1,568,416)	(1,954,522)	(1,645,543)	(787,257)	(559,947)
Gross profit (loss)		56,381	70,467	(126,151)	7,333	(13,475)
Other income	7	28,107	22	4	1	193
Other expense	8	(47,324)	(69,512)	(256,394)	(124)	(19,940)
Other gains and losses	9	(461,830)	9,514	1,319	156	10,332
Impairment losses, net of reversal	10	(96,963)	(75,907)	(4,210)	(1,710)	(315)
Selling and distribution expenses		(148)	(92)	(4,218)	(26)	(4,778)
Administrative expenses		(44,198)	(52,917)	(56,656)	(15,129)	(21,983)
Loss from operations		(565,975)	(118,425)	(446,306)	(9,499)	(49,966)
Finance costs	11	(157,248)	(60,601)	–	–	–
Loss before taxation	12	(723,223)	(179,026)	(446,306)	(9,499)	(49,966)
Taxation	14	–	–	(65,457)	–	–
Loss for the year/period		(723,223)	(179,026)	(511,763)	(9,499)	(49,966)
Total comprehensive expense for the year/period		(723,223)	(179,026)	(511,763)	(9,499)	(49,966)
Loss for the year/period attributable to equity holder of the Target Company		(723,223)	(179,026)	(511,763)	(9,499)	(49,966)
Total comprehensive expense for the year/period attributable to equity holder of the Target Company		(723,223)	(179,026)	(511,763)	(9,499)	(49,966)

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Notes	As at December 31, 2017	As at December 31, 2018	As at December 31, 2019	As at June 30, 2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	15	439,796	399,959	362,694	355,802
Right-of-use assets	16	–	–	51,819	51,177
Prepaid lease payments	17	53,105	51,819	–	–
Investment in subsidiaries	18	–	–	–	–
Prepayments for construction in progress		–	–	–	49,857
		492,901	451,778	414,513	456,836
Current assets					
Prepaid lease payments	17	1,286	1,286	–	–
Inventories	19	114,404	113,520	96,105	63,114
Other receivables	20	63,072	80,019	27,077	30,412
Trade and bills receivables	20	66,222	–	–	–
Trade and bills receivables measured at fair value through other comprehensive income ("FVTOCI")	20	–	3,476	257,021	301,254
Amounts due from related parties	28(b)	703,377	–	2,020	1,765
Deposit in Administrator account	23	–	–	147,215	117,938
Cash and cash equivalents	21	11,045	2,191	1,126	285
		959,406	200,492	530,564	514,768
Current liabilities					
Trade and other payables	24	629,739	34,208	56,775	65,520
Contract liabilities		–	1,420	–	4,080
Income tax payable		–	–	65,457	65,457
Restructuring debts	23	–	2,245,178	1,980,599	1,953,414
Bank and other loans	22	1,499,810	–	–	–
Amounts due to related parties	28(b)	937,706	126,170	458,715	549,568
		3,067,255	2,406,976	2,561,546	2,638,039
Net current liabilities		(2,107,849)	(2,206,484)	(2,030,982)	(2,123,271)
Total assets less current liabilities and net liabilities		(1,614,948)	(1,754,706)	(1,616,469)	(1,666,435)
Capital and reserves					
Share capital	25	388,000	388,000	388,000	388,000
Reserves	26	(2,002,948)	(2,142,706)	(2,004,469)	(2,054,435)
Total deficit attributable to equity holder of the Target Company		(1,614,948)	(1,754,706)	(1,616,469)	(1,666,435)
Total deficit		(1,614,948)	(1,754,706)	(1,616,469)	(1,666,435)

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company					
	Share capital	Capital reserve	Reserve fund	Safety fund	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 25)	*(Note 26)*	*(Note 26)*	*(Note 26)*		
Balance at January 1, 2017	388,000	–	13,846	–	(1,293,571)	(891,725)
Loss for the year	–	–	–	–	(723,223)	(723,223)
Balance at December 31, 2017	388,000	–	13,846	–	(2,016,794)	(1,614,948)
Capital contribution	–	728,556	–	–	–	728,556
Deemed capital reduction	–	(689,288)	–	–	–	(689,288)
Loss for the year	–	–	–	–	(179,026)	(179,026)
Balance at December 31, 2018	388,000	39,268	13,846	–	(2,195,820)	(1,754,706)
Capital contribution	–	650,000	–	–	–	650,000
Loss for the year	–	–	–	–	(511,763)	(511,763)
Net transfer to safety fund	–	–	–	180	(180)	–
Balance at December 31, 2019	388,000	689,268	13,846	180	(2,707,763)	(1,616,469)
Loss for the period	–	–	–	–	(49,966)	(49,966)
Net transfer to safety fund	–	–	–	581	(581)	–
Balance at June 30, 2020	388,000	689,268	13,846	761	(2,758,310)	(1,666,435)
Balance at January 1, 2019	388,000	39,268	13,846	–	(2,195,820)	(1,754,706)
Loss for the period	–	–	–	–	(9,499)	(9,499)
Balance at June 30, 2019 (unaudited)	388,000	39,268	13,846	–	(2,205,319)	(1,764,205)

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
Loss before taxation		(723,223)	(179,026)	(446,306)	(9,499)	(49,966)
Adjustments for:						
Other income		(28,107)	(22)	(4)	(1)	(193)
Other expense		29,639	69,512	244,062	124	–
Other gains or losses, net		461,832	(9,300)	(937)	–	4
Finance costs		157,248	60,601	–	–	–
Impairment losses, net of reversal		96,963	75,907	4,210	1,710	315
Depreciation		2,696	2,750	2,782	1,549	1,499
Operating cash flows before movements in working capital		(2,952)	20,422	(196,193)	(6,117)	(48,341)
(Increase)/decrease in inventories		(7,976)	39,257	55,427	32,101	51,273
Decrease/(increase) in trade and bills receivable, and other receivables		851,033	(30,108)	(209,525)	80,475	(95,644)
(Decrease)/increase in trade and other payables and contract liabilities		(1,675,399)	112,329	23,309	61,276	10,832
(Increase)/decrease in amounts due from related parties		(188,563)	703,377	(2,020)	(43,092)	2,020
(Decrease)/Increase in amounts due to related parties		–	(811,536)	332,545	(126,170)	90,298
Net cash (used in) generated from operating activities		(1,023,857)	33,741	3,543	(1,527)	10,438

	Note	Year ended December 31, 2017 RMB'000	2018 RMB'000	2019 RMB'000	Six months ended June 30, 2019 RMB'000 (unaudited)	2020 RMB'000
Investing activities						
Purchases of property, plant and equipment		–	–	(4,612)	–	(10,277)
Interest received		8,896	22	4	1	193
Proceeds from disposal of property, plant and equipment		148	–	–	–	15
Net cash generated from (used in) investing activities		9,044	22	(4,608)	1	(10,069)
Financing activities						
New bank borrowings		1,018,160	82,143	–	–	–
Repayment of bank borrowings		(329,206)	(64,159)	–	–	–
Withdraw of pledged bank deposits		1,005,600	–	–	–	–
Increase/(decrease) in amounts due from related parties		(514,814)	–	–	–	(1,765)
Increase in amounts due to related parties		–	–	–	–	555
Interest paid		(157,248)	(60,601)	–	–	–
Net cash generated from (used in) financing activities		1,022,492	(42,617)	–	–	(1,210)
Net increase (decrease) in cash and cash equivalents		7,679	(8,854)	(1,065)	(1,526)	(841)
Cash and cash equivalents at the beginning of the year/period		3,366	11,045	2,191	2,191	1,126
Cash and cash equivalents at the end of the year/period	21	11,045	2,191	1,126	665	285

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BANKRUPTCY RESTRUCTURING

Fangming Chemical was established in the People's Republic of China (the "PRC") on July 4, 2002 with limited liability. The registered office of the Target Company is Chemical Industry Park, Dongming County, Heze, Shandong Province, the PRC. The Target Company is engaged in the production, sale and distribution of refined chemicals (the "Core Business").

On September 28, 2018, Heze Intermediate People's Court in China (the "Court") appointed bankruptcy administrators (the "Administrators") for 洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd, "Hongye Chemical"), the ultimate holding company of the Target Company, its subsidiaries and certain other related companies (collectively referred to as the "Hongye Group Companies").

On July 31, 2019, the Court affirmed the restructuring proposal (the "Plan") which includes:

- the acquisition of the Hongye Group Companies including the Target Company, its subsidiaries 山東東巨化工股份有限公司 (Shandong Dongju Chemical Co., Ltd., the "Dongju Chemical") and 山東恒順供熱有限公司 (Shandong Hengshun Heat Supply Co., Ltd., the "Hengshun Heat Supply"), and fellow subsidiaries, 山東洪達化工有限公司 (Shandong Hongda Chemical Co., Ltd., the "Hongda Chemical"), 山東洪鼎化工有限公司 (Shandong Hongding Chemical Co., Ltd., the "Hongding Chemical") and 山東勇智化工有限公司 (Shandong Yongzhi Chemical Co., Ltd., the "Yongzhi Chemical") (collectively referred to as the "Hongye Chemical Enterprises") by Heze Jinda Asset Management Company ("Heze Jinda", the sole restructuring investor); and

- a capital restructuring and debt restructuring of the Hongye Group Companies, as well as injection of funds into the Hongye Chemical Enterprises to restructure its indebtedness adjudicated by the Administrators as set out in Note 23. According to the Plan and Article 46 of the "Enterprise Bankruptcy Law " of the PRC, all adjudicated creditor claims fell due and payable and all interest charges, if applicable, have been suspended effective from the date of the Court's affirmation of the Plan.

Since July 2019, 旭陽集團有限公司 (Risun Group Limited, "Risun Chemicals", formerly known as 旭陽化工有限公司 Risun Chemicals Limited) and its subsidiary 北京旭陽宏業化工有限公司 (Beijing Risun Hongye Chemicals Company Limited), subsidiaries of the Company, were jointly engaged to manage the daily operation of the Hongye Chemical Enterprises, including keeping the accounting records, on behalf of the Administrators.

On September 16, 2019, 蕪湖順日信澤股權投資合夥企業(有限合夥) (Wuhu Shunri Xinze Equity Investment Partnership (LP), "Shunri Xinze"), a subsidiary of the 中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd., "China Cinda"), entered into an agreement with Heze Jinda, the Administrators, and the Hongye Chemical Enterprises. Pursuant to the agreement, Shunri Xinze will be the parent company of the Hongye Chemical Enterprises by injecting RMB4,200 million into the Hongye Chemical Enterprises which are directly paid to Heze Jinda, of which RMB650 million are attributed to the Target Company as capital reserve.

On September 20, 2019, Shunri Xinze directly or indirectly acquired 100% of the registered capital of the Hongye Chemical Enterprises which then became wholly-owned subsidiaries of Shunri Xinze, except for 1.23% equity interest in the Target Company which was transferred to Shunri Xinze on October 17, 2019.

On September 27, 2020, the Court affirmed the completion of the required restructuring actions under the Plan. The Administrators made the payment to the relevant creditors based on the Plan. The Target Company is considered to have discharged all its obligations under the Plan as set out in Note 34.

The Historical Financial Information of the Target Company has been prepared solely for the purpose of inclusion in the financial information to be incorporated in the Circular of pages IIB-2-4 to IIB-2-52 dated December 8, 2020. Therefore, the comparative figures for the year ended December 31, 2016 have not been prepared.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

For the period prior to August 1, 2019, the accounting records accounts available to the Administrators were incomplete. As the Administrators did not exercise any control over the business, property and affairs of the Target Company prior to their appointment on September 28, 2018, they do not have the same level of knowledge of the financial affairs of the Target Company as the Target Company's then directors. In addition, the key management and staff responsible for maintaining the accounting records of the Target Company prior to August 1, 2019 had left the Target Company. Although the Administrators have used their best endeavor to access all accounting records of the Target Company, they are unable to verify that all transactions entered into by the Target Company prior to their appointment are complete and accurate. Accordingly, the Administrators were unable to satisfy themselves as to the completeness and accuracy in respect of opening balances, the potential claims, the commitments, the contingent liabilities and the pledge of assets in the management accounts prior to August 1, 2019.

Effective from August 1, 2019, the management of the Target Company has maintained accounting records and has prepared management accounts in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "MoF") and the implementation guidance, interpretations and other relevant provisions issued or revised subsequently by the MoF.

The Underlying Financial Statements are prepared by the Directors for the purpose of the Circular, based on the management accounts and accounting policies set out in Note 4 which conform with the IFRSs issued by the IASB. The basis of accounting under IFRSs differs in certain respects from that used in the preparation of the Target Company's management accounts. In preparing the Underlying Financial Statements, appropriate adjustments to conform with IFRSs, which are not taken up in the management accounts of the Target Company, have been made to the Underlying Financial Statements. The auditor of the Underlying Financial Statements as defined on Page IIB-2-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the Administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

In preparing the financial statements as at June 30, 2020, the Directors have considered the net current liabilities position of the Target Company of RMB2,123,271,000, including RMB1,953,414,000 relating to outstanding adjudicated indebtedness, as disclosed in Note 23. As at September 27, 2020, the outstanding adjudicated indebtedness of RMB1,950,593,000 were discharged and waived as appropriate, based on the payment ratio stipulated in the Plan and the Court's affirmation on the Plan's completion. Considering the discharge of the indebtedness, the Directors are of the opinion that the Target Company has sufficient financial resources to meet its working capital requirements and liabilities as and when they fall due for the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing and presenting the financial statements for the Reporting Periods, the Target Company has consistently applied IFRSs, which are effective for the accounting period beginning on January 1, 2020 throughout the Reporting Periods, except that the Target Company applied IFRS 9 "Financial Instruments" and IFRS 16 "Leases" from January 1, 2018 and January 1, 2019, respectively.

IFRS 9 Financial Instruments

The accounting policies for financial instruments which conform with IFRS 9 that are applicable from January 1, 2018 onwards and IAS 39 "Financial Instruments: Recognition and Measurement" which are applicable for the year ended December 31, 2017, are set out in Note 4 below.

The Target Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

Except for the reclassification of trade and bill receivables, the initial application of IFRS 9 has had no material impact on the classification and measurement of the Target Company's financial instruments as at January 1, 2018.

IFRS 16 Leases

The Target Company has applied IFRS 16 for the first time for the accounting period beginning on January 1, 2019. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

Definition of a lease

The Target Company has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Company has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Target Company applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Target Company has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Target Company applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts: elected not to recognize right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application or leases with low value.

The carrying amount of right-of-use assets for own use as at January 1, 2019 comprises the following:

		Right-of-use assets
		RMB'000
Reclassified from prepaid lease payment	(a)	53,105
		53,105
By class:		
Leasehold land and land use rights		53,105

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, prepaid lease payments amounting to RMB53,105,000 were reclassified to right-of-use assets.

New and revised IFRSs in issue but not yet effective

The Target Company has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[3]

1 Effective for annual periods beginning on or after January 1, 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2022
4 Effective for annual periods beginning on or after June 1, 2020
5 Effective for annual periods beginning on or after January 1, 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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 Company 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 financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases" or IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

The Target Company recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the products or services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;
- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or
- the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or services.

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

A point in time revenue recognition

The revenue of the Target Company is recognized at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from sales of goods to the Target Company's customers in connection with the production of refined chemical are recognized when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

Leasing

The Target Company as a lessee (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease.

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 3)

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.

For contracts entered into or modified on or after the date of initial application, the Target Company assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3)

Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Target Company.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Target Company is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Company presents right-of-use assets that do not meet the definition of investment property as a separate line item on the statement of financial position.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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.

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

Government grants

Government grants are not recognized until there is a reasonable assurance that the Target Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Target Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit scheme contribution

Payable to retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, is recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognized as expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages, salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from loss before taxation as reported in the statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (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 Company expects, at the end of each reporting period, to recover or settle the carrying amounts 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 by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income ("OCI") or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Target Company considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the 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 of goods or services, or for administrative purposes are carried at cost, less any recognized 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 and, for qualifying assets, borrowing costs capitalized in accordance with the Target Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Target Company makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" (before application of IFRS 16) or "right-of-use assets" (after application of IFRS16) in the statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the costs (other than properties under construction) less their residual values over their 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.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the profit or loss in the period which the item is derecognized.

Investments in subsidiaries

A subsidiary is a company which is controlled by the Target Company. Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returned from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Investments in subsidiaries are stated in the statements of financial position of the Target Company at cost less any identified impairment that has been recognized in profit or loss.

Impairment on property, plant and equipment, right-of-use assets and investments in subsidiaries

At the end of each reporting period, the Target Company reviews the carrying amounts of its property, plant and equipment, right-of-use assets and investments in subsidiaries to determine whether there is any indication that those 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 investments in subsidiaries are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 (or the CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the CGU. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the CGU. An impairment loss is recognized immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using weighted average cost formula. Net realizable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments (before the adoption of IFRS 9 as at January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

Financial assets

The Target Company's financial assets are classified into the following specified categories: available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized and derecognized on the trade date, i.e., the date that the Target Company commits to purchase or sell the asset.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, trade and bills receivables, amounts due from related parties and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any identified impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For AFS financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from related parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance accounts are recognized in profit or loss. When a trade and other receivables and an amounts due from related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortized cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Target Company 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 instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities (including trade and other payables, amounts due to related parties and bank and other loans) are subsequently measured at amortized cost, using the effective interest method.

Derecognition

The Target Company derecognizes a financial asset only when the rights to receive cash flows from the assets expire or, when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial instruments (under IFRS 9 on or after January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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 IFRS 15. 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 amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the reporting 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 or 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 amortized cost:

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

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

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

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

Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, are recognized in profit or loss. All other changes in the carrying amount of these receivables are recognized in OCI and accumulated in the equity. Impairment allowance are recognized in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these receivables had been measured at amortized cost. When these receivables are derecognized, the cumulative gains or losses previously recognized in OCI are reclassified to profit or loss.

Impairment under ECL model

The Target Company recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including other receivables, trade and bills receivables measured at FVTOCI, amounts due from related parties, deposit in Administrator account, cash and cash equivalents) and financial guarantee contracts. The amount of ECL is updated at the end of each reporting period 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, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of each reporting period. Assessments are done based on the Target Company'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 end of each reporting period as well as the forecast of future conditions.

The Target Company always recognizes lifetime ECL for trade receivables and amounts due from related parties arising from contracts with customers. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except that significant or credit impaired balances are assessed individually.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood of risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

For financial guarantee contracts, the date that the Target Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purpose of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Target Company considers the changes in the risk that the specified debtor will default on the contract.

Definition of default

For internal credit risk management, the Target Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay all amounts due in accordance with the contractual terms.

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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 following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

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 adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Target Company 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 expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Target Company expects to receive from the holder, the debtors or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Target Company 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.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

Except for trade and bill receivables measured at FVTOCI and financial guarantee contract, the Target Company recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of other receivables and amounts due from related parties where the corresponding adjustment is recognized through a loss allowance account. For trade and bill receivables measured at FVTOCI, the loss allowance is recognized in OCI and accumulated in the equity without reducing the carrying amounts of these debt receivables. For financial guarantee contracts, the loss allowances are recognized at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognized less, where appropriate, cumulative amount of income recognized over the guarantee period.

Derecognition of financial assets

The Target Company derecognizes a financial asset only when the rights to receive cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant reporting periods. The effective interest rate is the rate the exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities at amortized cost, including trade and other payables, amounts due to related parties, the restructuring debts and bank and other loans, are initially measured at fair value, net of transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized 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 payment when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at fair value. It is subsequently measured at the higher of:

- the amount of loss allowance determined in accordance with IFRS 9; and
- the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period.

Derecognition/modification of financial liabilities

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Target Company accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Target Company) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Target Company considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities is calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Target Company currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, which are described in note 4, the Directors are required to make 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates 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 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 are as follows:

Key sources of estimation uncertainty

Useful life and impairment of property, plant and equipment

In determining whether an asset is impaired, the management requires an estimation of recoverable amount of an individual asset or the CGUs to which the asset belongs, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the assets, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset's value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the CGUs to which the assets belongs.

Changing the assumptions selected by management to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses as at December 31, 2017, 2018 and 2019 and June 30, 2020 were RMB439,796,000, RMB399,959,000, RMB362,694,000 and RMB355,802,000, respectively.

Estimated impairment of doubtful receivables

The Target Company recognizes lifetime ECL since January 1, 2018 for trade receivables assessing individually for debtors with significant or credit impaired balances or collectively using a provision matrix by appropriate groupings. In addition, the Target Company recognizes lifetime ECL for other receivables when there has been a significant increase in credit risk since initial recognition. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. Further details are included in Note 30.

Taxation

Determining tax provisions involves judgement on the future tax treatments of certain transactions. The Target Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account of all changes in tax legislations.

Due to the change of management team and the restructuring proposal for the Target Company in the past few years as set out in Note 1, the Directors have exercised judgement in estimating the outcome of the tax exposure. Should the tax losses and/or relevant allowance be approved by the local tax authorities, it would have a corresponding adjustments on other gains and losses, income tax payable as set out in Note 14.

6. REVENUE AND SEGMENT INFORMATION

During the Reporting Periods, the Target Company's revenue represents the amount received and receivable from the sales of goods to external customers arising from the sale of refined chemicals. The revenue is recognized at a point in time when the customers obtain control of the goods delivered.

All sales/trading from contracts with customers are for period of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods delivered. Specifically, the Target Company's reportable segments under IFRS 8 are as follows:

Refined chemicals segment: the purchase of coking chemicals from the third parties, and processing such coking chemicals into refined chemical products, as well as marketing and selling such refined chemicals.

The Target Company currently operates in one business segment. A single management team reports to the CODM who comprehensively manages the entire business. For the period from December 31, 2017 to June 30, 2020, there was only one business carried out by the Target Company and all of the Target Company's assets are derived and located in the PRC. Therefore, the Directors concluded that the Target Company is operated in a single reportable segment and no further analysis for segment information is presented.

The following is an analysis of the Target Company's revenue:

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sale of refined chemicals	1,624,797	2,024,989	1,519,392	794,590	546,472

7. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	28,107	22	4	1	193

8. OTHER EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss on bankruptcy restructuring *(note a)*	–	–	119,982	–	–
Loss on bankruptcy claims *(note b)*	29,639	69,031	122,935	–	–
Expenses on suspension of production *(note c)*	17,548	–	12,332	–	19,940
Others	137	481	1,145	124	–
	47,324	69,512	256,394	124	19,940

Notes:

a. The debt of the Hongye Group Companies determined by the Court allocated to the Target Company by reference to the proportion of the capital contribution to the Hongye Group Companies on a pro-rata basis, in excess of the Target Company's own debt originally recorded.

b. Penalty interest and fine related to overdue debt and the payment for financial guarantee given by the Target Company.

c. Expense, including depreciation of property, plant and equipment and the staff costs, incurred in relation to suspension of a production line during the relevant periods.

9. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Gain (loss) on disposal of:					
– property, plant and equipment	138	–	–	–	(4)
– AFS financial assets *(note a)*	(2,000)	–	–	–	–
– Waste materials	–	–	–	–	10,170
Debts waived *(note b)*	–	–	3,306	–	–
Impairment of AFS financial assets *(note c)*	(1,000)	–	–	–	–
Impairment of investment in subsidiaries *(Note 18)*	(458,970)	–	–	–	–
Impairment of property, plant and equipment	–	–	(2,369)	–	–
Others	2	9,514	382	156	166
	(461,830)	9,514	1,319	156	10,332

Notes:

a. Being derecognition of an AFS investment of which the investee was de-registered in 2017.

b. On June 30, 2020, the Hongye Chemical Enterprises and the Hongye Group Companies other than the Hongye Chemical Enterprises (the "Other Hongye Companies") entered into a waiver agreement to reiterate the waiver of the net balance as at December 31, 2019. Debt waived represents the waiver of the net amounts owing to the Other Hongye Companies.

c. Being impairment of an AFS investment of which the investee has applied liquidation in 2017.

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net impairment losses recognized in respect of:					
Trade and other receivables *(Note 20)*	96,963	75,907	4,210	1,710	315

11. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest on bank loans	114,418	60,601	–	–	–
Finance expenses on bills receivable discounted	42,830	–	–	–	–
	157,248	60,601	–	–	–

All interest charges have been suspended effective from September 28, 2018 onwards. Please refer to the Plan as set out in Note 1 for details.

12. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Staff costs					
Salaries, wages and other benefits	25,638	30,388	43,583	17,666	18,997
Contributions to retirement benefits scheme	2,925	2,046	3,110	1,388	711
	28,563	32,434	46,693	19,054	19,708
Less: Capitalized in inventories	(20,998)	(24,457)	(37,677)	(11,804)	(13,940)
	7,565	7,977	9,016	7,250	5,768
Other items					
Depreciation of property, plant and equipment	40,036	39,837	39,508	19,912	19,139
Amortization of prepaid lease payment	1,286	1,286	–	–	–
Depreciation of right-of-use assets	–	–	1,286	642	642
Total depreciation and amortization	41,322	41,123	40,794	20,554	19,781
Less: Capitalized in inventories	(38,626)	(38,373)	(38,012)	(19,005)	(18,282)
	2,696	2,750	2,782	1,549	1,499
Cost of inventories recognized as an expense	1,568,416	1,954,522	1,645,543	787,257	559,947

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

During the Reporting Periods, no emolument was paid to the Directors, which include Chen Tongxi, Yu Hongyong, Wei Peixian, Yang Hongjie, Zhang Yinshu, Sun Shutian, Yu Qingming who resigned on September 20, 2019, and Li Lei, Liu Yi, Yue Wenjie, Yang Fuli, Shi Feng who were appointed on September 20, 2019.

Five highest paid individuals

The five highest paid individuals of the Target Company during the Reporting Periods included no director, whose emoluments are disclosed above. The emoluments in respect of the highest paid individuals during the Reporting Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, wages and other benefits	1,134	1,309	2,368	1,198	1,513
Contributions to retirement benefits scheme	29	38	25	12	3
	1,163	1,347	2,393	1,210	1,516

The remunerations of the five highest paid employees are within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Nil to HK$1,000,000	5	5	5	5	5

During the Reporting Periods, no amount was paid or payable by the Target Company to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office.

14. TAXATION

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Current tax					
PRC income tax for the year/period	–	–	65,457	–	–

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for the Target Company is 25% for the Reporting Periods.

Taxation for the year/period can be reconciled to the loss before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Loss before taxation	(723,223)	(179,026)	(446,306)	(9,499)	(49,966)
Tax at the PRC tax rate of 25%	(180,806)	(44,757)	(111,577)	(2,375)	(12,492)
Tax effect on:					
Non-deductible expenses	161,336	44,757	24,629	58	2,552
Unused tax losses and temporary differences not recognized	19,470	–	152,405	2,317	9,940
Taxation for the year/period	–	–	65,457	–	–

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the Target Company has deductible temporary differences of approximately RMB96,963,000, RMB172,870,000, RMB177,080,000 and RMB177,395,000, respectively, which are mainly arising from impairment of trade and other receivables of the Target Company. No deferred tax asset has been recognized in relation to such temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilized.

The Directors resubmitted the tax filing to the relevant tax authorities for the past few years, however the tax losses and relevant allowance cannot be ascertained up to the report date.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Machinery and equipment	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At January 1, 2017	168,625	505,308	5,264	6,260	–	685,457
Disposals	–	–	(201)	–	–	(201)
At December 31, 2017	168,625	505,308	5,063	6,260	–	685,256
At December 31, 2018	168,625	505,308	5,063	6,260	–	685,256
Additions	–	1,105	1,616	1,353	538	4,612
At December 31, 2019	168,625	506,413	6,679	7,613	538	689,868
Additions	–	2,742	–	386	9,138	12,266
Disposals	–	–	(389)	–	–	(389)
At June 30, 2020	168,625	509,155	6,290	7,999	9,676	701,745
Depreciation and impairment						
At January 1, 2017	33,658	163,264	4,266	4,427	–	205,615
Depreciation	6,407	33,086	347	196	–	40,036
Disposals	-	–	(191)	–	–	(191)
At December 31, 2017	40,065	196,350	4,422	4,623	–	245,460
Depreciation	6,408	33,077	155	197	–	39,837
At December 31, 2018	46,473	229,427	4,577	4,820	–	285,297
Depreciation	6,406	32,694	178	230	–	39,508
Impairment	170	1,374	14	811	–	2,369
At December 31, 2019	53,049	263,495	4,769	5,861	–	327,174
Depreciation	3,200	15,787	78	74	–	19,139
Disposals	–	–	(370)	–	–	(370)
At June 30, 2020	56,249	279,282	4,477	5,935	–	345,943
Carrying amounts						
At December 31, 2017	128,560	308,958	641	1,637	–	439,796
At December 31, 2018	122,152	275,881	486	1,440	–	399,959
At December 31, 2019	115,576	242,918	1,910	1,752	538	362,694
At June 30, 2020	112,376	229,873	1,813	2,064	9,676	355,802

The above items of property, plant and equipment, other than construction in progress, after taking into account their estimated residuals, are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Machinery and equipment	5–30 years
Motor vehicles	3–12 years
Office equipment	2–15 years

Details of the pledged property, plant and equipment are set out in Note 32.

At December 31, 2017, 2018, 2019 and June 30, 2020, building ownership certificates in respect of Leasehold land and buildings of the Target Company with an aggregate carrying amount of RMB27,548,000, RMB26,059,000, RMB24,571,000 and RMB23,826,000 had not been issued by the relevant PRC authorities. All leasehold land and buildings are located in the PRC.

16. RIGHT-OF-USE ASSETS

	Leasehold lands
	RMB'000
Carrying amount as at January 1, 2019	53,105
Depreciation charge	(1,286)
As at December 31, 2019	51,819
Depreciation charge	(642)
As at June 30, 2020	51,177

17. PREPAID LEASE PAYMENTS

Movements in the prepaid lease payments, which represent land use rights in the PRC, during the Reporting Periods are analyzed as follows:

	Year ended December 31,	
	2017	**2018**
	RMB'000	*RMB'000*
At the beginning of the reporting period	55,677	54,391
Released to profit or loss	(1,286)	(1,286)
At the end of the reporting period	54,391	53,105
Analyzed for reporting purpose as:		
Non-current assets	53,105	51,819
Current assets	1,286	1,286

18. INVESTMENT IN SUBSIDIARIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of investments, unlisted	458,970	458,970	–	–
Less: impairment	(458,970)	(458,970)	–	–
	–	–	–	–

Details of the Target Company's subsidiaries at the end of each Reporting Period are as follows:

Company name	Place of establishment/ incorporation	Place of operation	As at December 31, 2017	2018	2019	As at June 30, 2020
Dongju Chemical	PRC	Shandong, PRC	100%	100%	–	–
Hengshun Heat Supply	PRC	Shandong, PRC	100%	100%	–	–

Note: Both subsidiaries had net current liability position as at December 31, 2017 and the Target Company had an estimation that recoverable amount of the relevant subsidiaries would be nil and made the fully impairments of the investment in subsidiaries. Impairment loss of RMB458,970,000 was recognized in other gain and loss during the year ended December 31, 2017.

Both subsidiaries have been disposed by the Target Company to Shunri Xinze during the year ended December 31, 2019 for nil consideration.

The Directors did not prepare the consolidated financial statements in accordance with IFRS 10 "Consolidated Financial Statements", as the Directors of the Target Company consider that this is inconsistent with the Plan, and would involve expenses and delay out of proportion to the value to the stakeholder of the Company.

19. INVENTORIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	32,438	39,503	41,136	43,113
Finished goods	81,966	74,017	54,969	20,001
	114,404	113,520	96,105	63,114

20. OTHER RECEIVABLES/TRADE AND BILLS RECEIVABLES

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	7,117	–	–	–
Bills receivables	59,299	–	–	–
Trade receivables measured at FVTOCI	–	6,600	260,098	274,820
Bills receivables measured at FVTOCI	–	1,000	5,293	35,255
Less: impairment	(194)	(4,124)	(8,370)	(8,821)
	66,222	3,476	257,021	301,254
Prepayments for raw materials	35,668	79,876	8,700	11,126
Other deposits, prepayments and other receivables	124,173	168,889	168,817	169,482
Deductible input Value Added Tax and prepaid other taxes and charges	–	–	18,270	18,378
Less: impairment	(96,769)	(168,746)	(168,710)	(168,574)
	63,072	80,019	27,077	30,412

Aging of trade receivables net of allowance for bad debts based on invoice dates, which approximated the respective revenue recognition dates, are as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	412	–	81,686	96,396
1 to 3 months	276	–	113,548	132,775
3 to 6 months	6,235	917	56,494	36,828
6 to 12 months	–	1,559	–	–
	6,923	2,476	251,728	265,999

Bills receivable are bank acceptance notes and the average aging based on the maturity date is from 90 days to 360 days. The management believes that no further impairment allowance is necessary as there is no significant change in credit quality and the balances are still considered fully recoverable.

The table below is analysis of trade receivables as at December 31, 2017 under IAS 39:

	As at December 31, 2017
	RMB'000
Not past due and not impaired	–
Past due but not impaired	6,923
Total trade receivables	6,923

Starting from January 1, 2018, the Target Company applied the ECL model prescribed by IFRS 9, and the impairment methodology of ECL model is set out in Note 30.

The movements in the allowance for doubtful debts are as follows:

	Year ended December 31,			Six months ended June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	–	96,963	172,870	177,080
Impairment losses recognized on receivables	96,963	75,907	4,246	451
Impairment losses reversed on receivables	–	–	(36)	(136)
At the end of the reporting period	96,963	172,870	177,080	177,395

The following bills receivable as at December 31, 2017, 2018 and 2019 and June 30, 2020 were transferred to suppliers by endorsing on a full recourse basis. As the Target Company has not transferred the substantially all the risks and rewards relating to these receivables, it continues to recognize the full carrying amounts of the receivables and the corresponding liabilities included in trade payables.

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of associated payables to suppliers *(Note 24)*	58,767	–	2,900	20,298

During the Reporting Periods, the Target Company has transferred the substantially all the risks and rewards relating to certain bills receivable endorsed to suppliers even if the suppliers endorsed have the right of recourse. The Target Company's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed bills receivable is remote because all endorsed bills receivable are issued and guaranteed by the PRC reputable banks. As a result, the relevant assets and liabilities were derecognized. The maximum exposure to the Target Company that may result from the default of these endorsed bills receivable at the end of each reporting period are as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Endorsed bills for settlement of payables to suppliers	136,473	–	33,339	81,256
Outstanding endorsed bills receivable with recourse	136,473	–	33,339	81,256

The outstanding endorsed bills receivable are matured within 12 months.

21. CASH AND CASH EQUIVALENTS

Bank balances carried interest at market interest rates ranging from 0.3% to 0.35% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Bank balances and cash as at December 31, 2017, 2018 and 2019 and June 30, 2020 were denominated in RMB.

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	11,045	2,191	1,126	285

22. BANK AND OTHER LOANS

The analysis of the carrying amount of bank and other loans is as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– Secured	1,499,810	–	–	–

At the end of each reporting period, the bank and other loans were payable as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,499,810	–	–	–

Analyzed for reporting purpose as:

Current liabilities	1,499,810	–	–	–

The bank and other loans carry interest at the rates ranging from 4.35% to 9.50% per annum.

In 2017, the Target Company breached the covenants in a loan agreement, which are primarily related to the debt-equity ratio of the Target Company. The carrying amounts of bank and other loans that are repayable on demand due to breach of loan covenants were shown under current liabilities.

According to the judgment made by the Court on September 28, 2018, all bank and other loans were reclassified to restructuring debts as set out in Note 23.

23. RESTRUCTURING DEBTS

	December 31, 2018 *RMB'000*	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Salaries payable *(note a)*			
– trade and other payables	28,812	11,196	5,432
Secured and unsecured debts confirmed by the Administrators *(notes b and c)*			
– trade and other payables	311,795	279,970	263,072
– bank and other loans *(Note 22)*	1,376,108	1,157,705	1,156,447
	1,687,903	1,437,675	1,419,519
Unconfirmed debts by the Administrators *(note d)*			
– trade and other payables	242,135	242,135	242,135
– bank and other loans *(Note 22)*	286,328	286,328	286,328
	528,463	528,463	528,463
Other liabilities *(note e)*	–	3,265	–
	2,245,178	1,980,599	1,953,414

Restructuring debts represent indebtedness entering into adjudication process effective from September 28, 2018 and the debts affirmed by the Court on July 31, 2019 after due adjudication by the Administrators.

According to the Plan disclosed in Note 1, the adjudicated indebtedness below are to be settled based on the payment sequence and ratio stipulated in the Plan, using the funds injected by Shunri Xinze, with the balance to be discharged upon the completion of such payment and the Court's affirmation of such completion. The relevant indebtedness includes:

(a) the taxes payable and salaries payable which will be paid in full;

(b) secured debts, if any, will be paid at a percentage of the realized value of the pledged assets and the unpaid portion will be fulfilled together with other unsecured debts;

(c) unsecured debts less than RMB200,000 which will be paid in full and unsecured debts more than RMB200,000 which will be paid at ratio of 11.13% according to the Plan;

(d) unconfirmed debts, which consist of debts pending for endorsement by creditors and the Court as well as potential creditor claims yet to be received, will be paid in accordance with the Plan for the similar indebtedness; and

(e) other liabilities, including bankruptcy fees and debts from Other Hongye Companies allocated to the Target Company.

The total estimated indebtedness, including the amount guaranteed by the Target Company affirmed by the Court is approximately RMB2,368,113,000 as at September 28, 2018. As disclosed in Note 34, the Court affirmed on September 27, 2020 the completion of the Plan including the payment made by Shunri Xinze in September 2019, out of which the Administrators paid the debts claimants in accordance with the Plan. The resulting gain of RMB1,838,094,000, being the balance of the indebtedness waived and discharged in line with the Plan, are considered by the Directors as an non-adjusting subsequent event. As of the date of September 27, 2020, the balance of fund in Administrator account amounted to RMB115,117,000.

24. TRADE AND OTHER PAYABLES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	160,118	15,435	52,428	35,266
Payables to be settled by the endorsed bills receivable *(Note 20)*	58,767	–	2,900	20,298
Payables for construction in progress	83,393	48	–	1,989
Other payables and accruals	327,461	18,725	1,447	7,967
	629,739	34,208	56,775	65,520

Trade and other payables are generally expected to be settled within one year.

The following is an aging analysis of trade payables and based on the invoice date at the end of each reporting period:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	99,968	15,435	45,268	20,718
3 to 6 months	1,181	–	–	1,509
7 to 12 months	8,783	–	1,447	844
1–2 years	32,685	–	5,713	10,748
2–3 years	418	–	–	1,447
More than 3 years	17,083	–	–	–
	160,118	15,435	52,428	35,266

According to the judgment made by the Court on September 28, 2018, the carrying value of trade and other payables as at September 28, 2018 were reclassified to restructuring debt as set out in Note 23.

25. SHARE CAPITAL

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Presented in the statements of financial position as:	388,000	388,000	388,000	388,000

26. RESERVES

Capital reserve

In 2018, the changes of capital reserve represent:

a. the capital contribution amounting to RMB728,556,000 from Hongye Chemical in accordance with an agreement with Hongye Chemical dated July 5, 2018;

b. the net amount owing to the Target Company of RMB689,288,000 waived according to the waiver agreements within the Hongye Group Companies which was accounted for as a deemed capital reduction and recognized in capital reserve.

In 2019, the addition of capital reserve represents capital injection amounting to RMB650,000,000 from Shunri Xinze as set out in Notes 1 and 23.

Reserve fund

The Articles of Association of the Target Company require the appropriation of 10% of their profit after tax, based on their statutory audited financial statements, to the reserve fund each year until the balance reaches 50% of the registered capital of the Target Company. The reserve fund may be capitalized as the paid-in capital.

Safety fund

Pursuant to relevant PRC regulation, the Target Company is required to transfer from 0.2% to 4% of revenue generated from sales of refined chemicals for the periods. The Target Company is required to make a transfer for the provision of safety fund from retained profits to a specific reserve. The safety fund could be utilized when expenses or capital expenditures on safety operation or measures are incurred. The amount of safety fund utilized would be transferred from the specific reserve back to retained profits.

27. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the Target Company participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities whereby the Target Company is required to make contributions to the Schemes based on applicable rates. The municipal government authorities are responsible for the entire pension obligations payable to retired employees.

The Target Company has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

28. RELATED PARTY TRANSACTIONS AND BALANCES

Prior to September 20, 2019, the following entities were considered as the related companies of the Target Company:

Name of related party	Relationship with the Target Company
洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd)	Ultimate holding company in Other Hongye Companies
山東洪業如松化工設備安裝有限公司 (Shandong Hongye Rusong Chemical Equipment Installation Co., Ltd)	*note b*
山東吉昌化工有限責任公司 (Shandong Jichang Chemical Co., Ltd)	*note b*
菏澤開發區洪源小額貸款有限公司 (Heze Development Zone Hongyuan Small Loan Co., Ltd)	*note b*
菏澤市洪源供水有限公司 (Heze Hongyuan Water Supply Co., Ltd)	*note b*
菏澤洪方商貿有限公司 (Heze Hongfang Trading Co., Ltd)	*note b*
上海洪魯國際貿易有限公司 (Shanghai Honglu International Trade Co., Ltd)	*note b*
上海多凱國際貿易有限公司 (Shanghai Duokai International Trade Co., Ltd)	*note b*
上海洪魯化工技術有限公司 (Shanghai Honglu Chemical Technology Co., Ltd)	*note b*
山東天秀化工貿易有限公司 (Shandong Tianxiu Chemical Trade Co., Ltd)	*note b*
山東吉安化工有限公司 (Shandong Ji'an Chemical Co., Ltd)	*note b*
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明藥業集團股份有限公司 (Shandong Fangming Pharmaceutical Group Co., Ltd)	*note c*
菏澤市方明製藥有限公司 (Heze Fangming Pharmaceutical Co., Ltd)	*note c*
上海眾諾國際貿易有限公司 (Shanghai Zhongnuo International Trade Co., Ltd)	*note c*
山東方明邦嘉製藥有限公司 (Shandong Fangming Bangjia Pharmaceutical Co., Ltd)	*note c*
東明縣洪方化工科技服務有限公司 (Dongming Hongfang Chemical Technology Service Co., Ltd)	*note c*
菏澤堯舜牡丹生物科技有限公司 (Heze Yaoshun Peony Biotechnology Co., Ltd)	*note c*
菏澤堯舜酒店管理有限公司 (Heze Yaoshun Hotel Management Co., Ltd)	*note c*

Name of related party	Relationship with the Target Company
菏澤市中小企業融資擔保有限公司 (Heze SME Financing Guarantee Co., Ltd)	*note c*
山東洪方精細化工有限公司 (Shandong Hongfang Fine Chemical Co., Ltd)	*note c*
山東東藥藥業股份有限公司 (Shandong Dongyao Pharmaceutical Co., Ltd)	*note c*
菏澤萊佛生物科技有限公司 (Heze Laifo Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
菏澤百奧靈生物科技有限公司 (Heze Baiaoling Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
山東洪豐麵粉有限公司 (Shandong Hongfeng Flour Co., Ltd)	*note c*
開封天池化工有限公司 (Kaifeng Tianchi Chemical Co., Ltd)	*note c*

Note a: According to the Plan set out in Note 1, certain entities ceased to be a related company of the Target Company from September 20, 2019 onwards.

Note b: Fellow subsidiary in the Other Hongye Companies.

Note c: Entity controlled by the then ultimate beneficial owner in the Other Hongye Companies.

Note d: According to the Plan, the related party balances as at September 28, 2018 were waived within the Hongye Group Companies.

Subsequent to September 20, 2019, the following entities were considered as the related companies of the Target Company.

Name of related party	Relationship with the Target Company
中國信達資產管理股份有限公司 (China Cinda)	Ultimate holding company
蕪湖順日信澤股權投資合夥企業(有限合夥) (Shunri Xinze)	Immediate holding company
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

Other than the transactions disclosed in Notes 1, 23 and 26 in the Historical Financial Information, the Target Company entered into the following material related party transactions:

(a) Transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchases of goods from					
– Fellow subsidiaries	872,709	896,901	781,466	365,450	353,087
– Other Hongye Companies	732,535	247,507	111,470	68,942	–
Sales of goods to					
– Fellow subsidiaries	762,540	725,341	184,221	93,522	222,318
– Other Hongye Companies	606,993	9	–	–	–
Administrative fee to					
– Other Hongye Companies	5,914	12,356	10,682	7,579	–

The above related party transactions were conducted in accordance with terms of the relevant agreements.

(b) Balances with related parties

At the end of each reporting period, the Target Company had the following balances with related parties:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
Non-trade nature				
– Fellow subsidiaries	–	–	–	1,765
– Other Hongye Companies	514,812	–	–	–
	514,812	–	–	1,765
Trade nature – receivables				
– Fellow subsidiaries	109,790	–	–	–
– Other Hongye Companies	36,446	–	–	–
	146,236	–	–	–
Prepayments				
– Fellow subsidiaries	–	–	2,020	–
– Other Hongye Companies	42,329	–	–	–
	42,329	–	2,020	–
Analyzed for reporting purposes as:				
Current portion	703,377	–	2,020	1,765

Aging of amounts due from related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	38,750	–	–	–
1 to 3 months	9,043	–	–	–
3 to 6 months	32,083	–	–	–
6 to 12 months	64,723	–	–	–
2 to 3 years	1,637	–	–	–
	146,236	–	–	–

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to related parties				
Non-trade nature				
– Fellow subsidiaries	–	–	–	555
– Other Hongye Companies	7,048	–	–	–
	7,048	–	–	555
Trade nature – payables				
– Fellow subsidiaries	21,180	126,170	458,715	549,013
– Other Hongye Companies	70,726	–	–	–
	91,906	126,170	458,715	549,013
Advances received for sales of goods				
– Fellow subsidiaries	838,752	–	–	–
	838,752	–	–	–
Analyzed for reporting purposes as:				
Current portion	937,706	126,170	458,715	549,568

Aging of amounts due to related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	6,469	92,558	415,573	139,979
1 to 3 months	–	33,612	–	138,644
3 to 6 months	53,360	–	–	194,946
6 to 12 months	26,936	–	–	75,444
1–2 years	4,476	–	43,142	–
2 to 3 years	665	–	–	–
	91,906	126,170	458,715	549,013

29. CAPITAL MANAGEMENT

The Target Company's primary objectives of managing capital are to safeguard the Target Company's ability to continue as a going concern, and to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions.

Based on recommendations of the board of directors, the Target Company will balance its overall capital structure through adjusting the amount of dividends paid to shareholders, issues of new shares, raise new debt financing or selling assets to reduce debt. During the Reporting Periods, the objectives, policies or processes were changed from July 31, 2019 onwards, upon the engagement of the Risun Chemicals as the operation agent as per agreement.

The Target Company monitors capital with reference to its debt position. The Target Company's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligation.

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of each reporting period are set out as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Target Company				
Financial assets				
Loans and receivables (including cash and cash equivalents)	765,719	–	–	–
Trade and bills receivables measured at FVTOCI	–	3,476	257,021	301,254
Financial assets at amortized cost	–	2,334	148,448	120,896
Financial liabilities				
Financial liabilities at amortized cost	2,121,938	2,358,112	2,483,649	2,563,107

Financial risk management objectives and policies

The Target Company's major financial instruments include trade and bills receivables measured at amortized cost, trade and bills receivables measured at FVTOCI, other receivables, amounts due from related parties, deposit in Administrator account, cash and cash equivalents, trade and other payables, restructuring debts, amounts due to related parties, and bank and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. From July 31, 2019 onwards, the management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

For the year ended December 31, 2019 and the period ended June 30, 2020, the Director(s) consider that the interest rate risk of the Target Company is limited as the finance charges have been suspended. Please refer to the Plan as set out in Note 1 for details.

Due to incomplete record, change of management team and the Plan as set out in Note 1, in management's opinion, the disclosures of interest rate risk for the years ended December 31, 2017 and 2018 are unrepresentative as the year-end exposure does not reflect the exposure of the Target Company during the relevant years. Thus, no disclosures were prepared.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Company's counterparties default on their contractual obligations resulting in financial losses to the Target Company. The Target Company's credit risk exposures are primarily attributable to trade and bills receivables, other receivables, cash and cash equivalents, amounts due from related parties and deposit in Administrator account. The Target Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

At the end of each reporting period, other than financial assets whose carrying amounts best represent the maximum credit risk, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the amount of contingent liabilities disclosed in Note 33.

In order to minimize the credit risk, the Target Company mainly conducted transactions with customers with good quality, when accepting new customers, the Target Company requests advanced payment before the goods delivered.

The Target Company only accepts bills issued or guaranteed by reputable PRC banks if trade receivables are settled by bills and therefore the management of the Target Company considers the credit risk arising from the endorsed bills is insignificant. In this regard, the Directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

To manage risk arising from bank balances, the Target Company mainly transacts with state-owned or reputable financial institutions in PRC. There has been no recent history of default in relation to these financial institutions. Therefore the management of the Target Company considers the credit risk arising from cash and cash equivalents is insignificant.

The Target Company does not have any significant concentration of credit risk, as at December 31, 2017 and 2018, with exposure spread over a large number of counterparties and customers. As at December 31, 2019 and June 30, 2020, the Target Company has concentration of credit risk as 97.46% and 97.37% of trade receivables were due from Risun Chemicals and its subsidiaries.

For trade receivables and amounts due from related parties of trade nature, the Target Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The ECL on these assets are assessed individually for debtors with significant or credit impaired balances or collectively using a provision matrix by appropriate groupings. As part of the Target Company's credit risk management, the Target Company uses debtors' aging to assess the impairment for its customers because its customers share common risk characteristics that are representative of the customers' abilities to pay the amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted using forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

For all other instruments including, other receivables, deposit in Administrator account and amounts due from related parties of non-trade nature, the Target Company measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The Target Company has assessed and concluded that the risk of default rate for these instruments are steady based on the Target Company's assessment of the financial health of the counterparties.

The tables below detail the credit risk exposures of the Target Company’s trade and other receivables, deposit in Administrator account and amounts due from related parties, which are subject to ECL assessment:

	Notes	**Internal credit rating**	**12-month or lifetime ECL**	**December 31, 2018 Gross carrying amount**		**December 31, 2019 Gross carrying amount**		**June 30, 2020 Gross carrying amount**	
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortized cost									
Other receivables	20	*Note*	12-month ECL	144		107		910	
			Credit-impaired (individually)	168,745	168,889	168,710	168,817	168,572	169,482
Deposit in Administrator account	23	*Note*	12-month ECL	–	–	147,215	147,215	117,938	117,938
Amounts due from related parties	28	*Note*	12-month ECL	–		–		1,765	
			Not Credit-impaired (individually)	–	–	–	–	–	1,765
Financial assets at FVTOCI									
Trade receivables	20	*Note*	Not Credit-impaired (individually)	–		253,498		267,601	
			Lifetime ECL (provision matrix)	2,476		–		619	
			Credit-impaired (individually)	4,124	6,600	6,600	260,098	6,600	274,820
Bills receivables	20	*Note*	12-month ECL	1,000	1,000	5,293	5,293	35,255	35,255

Note: These balances are unsecured and with no fixed repayment terms. Set out below is the impairment provision of the financial assets.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables and amounts due from related parties of trade nature under the simplified approach:

	Lifetime ECL (not credit impaired)	**Lifetime ECL (credit impaired)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2018	–	194	194
– Impairment losses recognized	–	3,930	3,930
At December 31, 2018	–	4,124	4,124
– Impairment losses recognized	1,770	2,476	4,246
At December 31, 2019	1,770	6,600	8,370
– Impairment losses recognized	451	–	451
At June 30, 2020	2,221	6,600	8,821

The credit risk of trade receivables based on the Target Company's provision matrix was insignificant.

The trade receivables with gross carrying amounts of RMB4,124,000, RMB260,098,000 and RMB274,201,000 as at December 31, 2018, December 31, 2019 and June 30, 2020, respectively, were assessed individually, and impairment allowance of RMB4,124,000, RMB8,370,000 and RMB8,736,000 were made on these debtors.

The following table shows reconciliation of loss allowances that have been recognized for other receivables:

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2018	–	–	96,769	96,769
– Impairment losses recognized	–	–	71,977	71,977
As at December 31, 2018	–	–	168,746	168,746
– Impairment losses reversed	–	–	(36)	(36)
As at December 31, 2019	–	–	168,710	168,710
– Impairment losses reversed	–	–	(136)	(136)
As at June 30, 2020	–	–	168,574	168,574

Liquidity risk

The Directors are responsible for cash management of the Target Company, including the raising of loans to cover expected cash demands. The Target Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

At the end of each reporting period, almost all remaining contractual maturities of the Target Company's financial liabilities were within one year.

Fair values

(i) Financial instruments carried at fair value

The Target Company measures its following financial instruments at fair value at the end of each reporting period on a recurring basis:

	Fair value					
	As at December 31,		As at June 30,	Fair value		Significant unobservable
	2018	2019	2020	hierarchy	Valuation technique and key input	input(s)
	RMB'000	*RMB'000*	*RMB'000*			
Trade receivables and bills receivable	3,476	257,021	301,254	Level 2	Fair values are estimated based on the present value of the contracted cash inflow at the discount rate that reflects the market credit risk	N/A

(ii) Fair values of financial instruments carried at amortized cost

Except for the fair values of the restructuring debts, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information of the Target Company approximate their fair values due to short maturity or with floating interest rates. The fair value of restructuring debts amounting to RMB142,505,000 and RMB115,320,000 as at December 31, 2019 and June 30, 2020, respectively, are evaluated based on the future cash flow of restructuring debts in accordance with the Plan and the investment agreement.

31. COMMITMENTS

Capital commitments outstanding at the end of each reporting period not provided for in the Historical Financial Information of the Target Company were as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure in respect of				
– property, plant and equipment	–	–	–	504

32. PLEDGE OF ASSETS

At the end of each reporting period, certain Group's assets were pledged to secure banking facilities granted to the Target Company and their carrying amounts are as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	315,104	267,128	–	–
Prepaid lease payments	54,391	53,105	–	–
	369,495	320,233	–	–

According to the judgment made by the Court on July 31, 2019, all assets pledged to the financial institutions were released during the year of 2019.

33. CONTINGENT LIABILITIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees provided in respect of				
– loan facilities	1,092,788	1,092,788	–	–

Undeclared claims of the Target Company

According to the Plan, the undeclared creditors, of which no provision was made by the Target Company will have right to request payment within two years after the completion of the Plan on September 27, 2020. The Directors of the Target Company believe, based on the indemnity provided by Heze Jinda, that further payment to be made by the Target Company is remote and therefore no further provision is required.

34. EVENTS AFTER REPORTING PERIODS

As disclosed in Note 23, the Court affirmed the completion of the Plan on September 27, 2020.

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to June 30, 2020.

The following is the text of a report set out on pages IIB-3-1 to IIB-3-45, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF 山東恒順供熱有限公司 (SHANDONG HENGSHUN HEAT SUPPLY CO., LTD.) TO THE DIRECTORS OF CHINA RISUN GROUP LIMITED

Introduction

We are engaged to report on the historical financial information of 山東恒順供熱有限公司 (Shandong Hengshun Heat Supply Co., Ltd., the "Hengshun Heat Supply", the "Target Company") set out on pages IIB-3-4 to IIB-3-45, which comprises the statements of financial position of the Target Company as at December 31, 2017, 2018 and 2019 and June 30, 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Reporting Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information of the Target Company"). The Historical Financial Information of the Target Company set out on pages IIB-3-4 to IIB-3-45 forms an integral part of this report, which has been prepared for inclusion in the circular of China Risun Group Limited (the "Company") dated December 8, 2020 (the "Circular") in connection with the proposed acquisition of the Target Company.

Responsibilities of the Directors of the Target Company and the Company

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

The directors of the Company are responsible for the content of this Circular in which the Historical Financial Information of the Target Company 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 conduct 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") and to report to you. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

We complied with ethical standards as required by this standard.

Disclaimer of Opinion on the Historical Financial Information of the Target Company

We do not express an opinion on the Historical Financial Information of the Target Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company

As set out in Note 2 to the Historical Financial Information, the Historical Financial Information of the Target Company was prepared based on incomplete accounting records. The auditor of the Underlying Financial Statements as defined on page IIB-3-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the bankruptcy administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

We were unable to carry out the procedures we considered necessary to assess the impact of the matter described on the Underlying Financial Statements to form a basis for an audit opinion on the Historical Financial Information. We were also unable to determine whether any adjustments might have been found necessary in respect of the Historical Financial Information of the Target Company.

Disclaimer of Conclusion on Stub Period Comparative Financial Information of the Target Company

We were engaged to review the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information of the Target Company"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information of the Target Company in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of the Target Company. Our responsibility is to conduct our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Because of the significance of the

matters described in the Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company section of our report, we were unable to obtain sufficient appropriate evidence to form a conclusion on the Stub Period Comparative Financial Information of the Target Company. Accordingly, we do not express a conclusion on the Stub Period Comparative Financial Information of the Target Company.

Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company

We were unable to carry out the procedures we considered necessary to assess the consequential impact of the matters described on the Underlying Financial Statements and the Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company section of our report to form a basis for a conclusion on the Stub Period Comparative Financial Information of the Target Company. We were also unable to determine whether any adjustments might have been found necessary in respect of the Stub Period Comparative Financial Information of the Target Company.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-3-4 have been made.

Dividends

No dividend was declared or paid by the Target Company in respect of the Reporting Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

December 8, 2020

HISTORICAL FINANCIAL INFORMATION OF HENGSHUN HEAT SUPPLY

Preparation of the Historical Financial Information of the Target Company

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

The financial statements of the Target Company for the Reporting Periods, on which the Historical Financial Information of the Target Company is based, have been prepared by the directors of the Target Company (the "Directors") in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements") of which a disclaimer of opinion was issued as set out in Note 2.

The Historical Financial Information of the Target Company is presented in Renminbi ("RMB"), which is also the functional currency of the Target Company, and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2017	2018	2019	Six months ended June 30, 2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue from contracts with customers	6	180,976	131,978	54,895	31,725	17,388
Cost of sales		(161,201)	(133,459)	(75,807)	(31,346)	(14,827)
Gross profit (loss)		19,775	(1,481)	(20,912)	379	2,561
Other income	7	1	1	–	–	–
Other expense	8	(221)	(596)	(115,454)	–	–
Other gains and losses	9	1,728	2,039	369	2	47
Impairment losses, net of reversal	10	(13,264)	(17,304)	(9,000)	–	–
Administrative expenses		(1,919)	(966)	(545)	(40)	(67)
Profit (loss) from operations		6,100	(18,307)	(145,542)	341	2,541
Finance costs	11	(13,926)	(6,152)	–	–	–
(Loss) profit before taxation	12	(7,826)	(24,459)	(145,542)	341	2,541
Taxation	14	(238)	–	–	–	(670)
(Loss) profit for the year/period		(8,064)	(24,459)	(145,542)	341	1,871
Total comprehensive (expense) income for the year/period		(8,064)	(24,459)	(145,542)	341	1,871
(Loss) profit for the year/period attributable to equity holder of the Target Company		(8,064)	(24,459)	(145,542)	341	1,871
Total comprehensive (expense) income for the year/period attributable to equity holder of the Target Company		(8,064)	(24,459)	(145,542)	341	1,871

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Notes	As at December 31, 2017	As at December 31, 2018	As at December 31, 2019	As at June 30, 2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	15	209,212	191,356	173,171	164,504
Current assets					
Inventories	16	10,121	5,136	3,265	2,295
Other receivables	17	19,402	22,159	4,419	4,868
Trade receivables	17	14,799	8,021	–	5,319
Amounts due from related parties	25(b)	215,668	223,712	223,976	56,008
Deposit in Administrator account		–	–	41,043	21,505
Cash and cash equivalents	18	173	220	108	92
		260,163	259,248	272,811	90,087
Current liabilities					
Trade and other payables	21	330,347	9,399	4,902	6,107
Income tax payables		238	–	–	670
Restructuring debts	20	–	387,685	363,947	344,409
Bank and other loans	19	76,815	–	–	–
Amounts due to related parties	25(b)	38,630	207,687	196,842	21,243
		446,030	604,771	565,691	372,429
Net current liabilities		(185,867)	(345,523)	(292,880)	(282,342)
Total assets less current liabilities and net assets (liabilities)		23,345	(154,167)	(119,709)	(117,838)
Capital and reserves					
Share capital	22	70,000	70,000	70,000	70,000
Reserves	23	(46,655)	(224,167)	(189,709)	(187,838)
Total equity (deficit) attributable to equity holder of the Target Company		23,345	(154,167)	(119,709)	(117,838)
Total equity (deficit)		23,345	(154,167)	(119,709)	(117,838)

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company					
	Share capital	Capital reserve	Reserve fund	Safety fund	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 22)	*(Note 23)*	*(Note 23)*	*(Note 23)*		
Balance at January 1, 2017	70,000	–	469	–	(39,060)	31,409
Loss for the year	–	–	–	–	(8,064)	(8,064)
Transfer to reserve fund	–	–	37	–	(37)	–
Balance at December 31, 2017	70,000	–	506	–	(47,161)	23,345
Deemed capital reduction	–	(153,053)	–	–	–	(153,053)
Loss for the year	–	–	–	–	(24,459)	(24,459)
Transfer to reserve fund	–	–	196	–	(196)	–
Balance at December 31, 2018	70,000	(153,053)	702	–	(71,816)	(154,167)
Capital contribution	–	180,000	–	–	–	180,000
Loss for the year	–	–	–	–	(145,542)	(145,542)
Net transfer to safety fund	–	–	–	522	(522)	–
Balance at December 31, 2019	70,000	26,947	702	522	(217,880)	(119,709)
Profit for the period	–	–	–	–	1,871	1,871
Net transfer from safety fund	–	–	–	(420)	420	–
Balance at June 30, 2020	70,000	26,947	702	102	(215,589)	(117,838)
Balance at January 1, 2019	70,000	(153,053)	702	–	(71,816)	(154,167)
Profit for the period	–	–	–	–	341	341
Balance at June 30, 2019 (unaudited)	70,000	(153,053)	702	–	(71,475)	(153,826)

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
(Loss) profit before taxation		(7,826)	(24,459)	(145,542)	341	2,541
Adjustments for:						
Other income		(1)	(1)	–	–	–
Other expense		89	566	115,454	–	–
Other gains or losses, net		–	–	(365)	–	–
Finance costs		13,926	6,152	–	–	–
Impairment losses, net of reversal		13,264	17,304	9,000	–	–
Depreciation		20	2	–	–	–
Operating cash flows before movements in working capital		19,472	(436)	(21,453)	341	2,541
Decrease in inventories		17,971	22,839	19,727	8,888	9,867
Decrease/(increase) in trade receivables, and other receivables		351,205	(13,283)	16,761	(20,923)	(5,768)
Increase/(decrease) in trade and other payables		88,170	(142,719)	(2,903)	(6,906)	975
Increase/(decrease) in amounts due to related parties		36,769	(36,769)	–	–	–
Net cash generated from (used in) operating activities		513,587	(170,368)	12,132	(18,600)	7,615
Investing activities						
Purchases of property, plant and equipment		–	(21,216)	(1,135)	–	–
Interest received		1	1	–	–	–
Net cash generated from (used in) investing activities		1	(21,215)	(1,135)	–	–

	Note	Year ended December 31, 2017	2018	2019	Six months ended June 30, 2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Financing activities						
New bank borrowings		235,000	–	–	–	–
Repayment of bank borrowings		(520,832)	–	–	–	–
Interest paid		(13,926)	(6,152)	–	–	–
Increase in amounts due from related parties		(215,668)	(8,044)	(264)	–	–
Increase/(decrease) in amounts due to related parties		1,861	205,826	(10,845)	18,411	(7,631)
Net cash (used in) generated from financing activities		(513,565)	191,630	(11,109)	18,411	(7,631)
Net increase (decrease) in cash and cash equivalents		23	47	(112)	(189)	(16)
Cash and cash equivalents at the beginning of the year/period		150	173	220	220	108
Cash and cash equivalents at the end of the year/period	18	173	220	108	31	92

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BANKRUPTCY RESTRUCTURING

Hengshun Heat Supply was established in the People's Republic of China (the "PRC") on November 8, 2012 with limited liability. The registered office of the Target Company is Chemical Industry Park, Dongming County, Heze, Shandong Province, the PRC. The Target Company is engaged in the production, sale and distribution of saturated steam and rental of equipment (the "Core Business").

On September 28, 2018, Heze Intermediate People's Court in China (the "Court") appointed bankruptcy administrators (the "Administrators") for 洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd, "Hongye Chemical"), the ultimate holding company of the Target Company, its subsidiaries and certain other related companies (collectively referred to as the "Hongye Group Companies").

On July 31, 2019, the Court affirmed the restructuring proposal (the "Plan"), which includes:

- the acquisition of the Hongye Group Companies including the Target Company, 山東方明化工股份有限公司 (Shandong Fangming Chemical Co., Ltd., the "Fangming Chemical"), 山東東巨化工股份有限公司 (Shandong Dongju Chemical Co., Ltd., the "Dongju Chemical"), 山東洪達化工有限公司 (Shandong Hongda Chemical Co., Ltd., the "Hongda Chemical"), 山東洪鼎化工有限公司 (Shandong Hongding Chemical Co., Ltd., the "Hongding Chemical") and 山東勇智化工有限公司 (Shandong Yongzhi Chemical Co., Ltd., the "Yongzhi Chemical") (collectively referred to as the "Hongye Chemical Enterprises") by Heze Jinda Asset Management Company ("Heze Jinda", the sole restructuring investor); and

- a capital restructuring and debt restructuring of the Hongye Group Companies, as well as injection of funds into the Hongye Chemical Enterprises to restructure its indebtedness adjudicated by the Administrators as set out in Note 20. According to the Plan and Article 46 of the "Enterprise Bankruptcy Law" of the PRC, all adjudicated creditor claims fell due and payable and all interest charges, if applicable, have been suspended effective from the date of the Court's affirmation of the Plan.

Since July 2019, 旭陽集團有限公司 (Risun Group Limited, "Risun Chemicals", formerly known as 旭陽化工有限公司 Risun Chemicals Limited) the and its subsidiary 北京旭陽宏業化工有限公司 (Beijing Risun Hongye Chemicals Company Limited), subsidiaries of the Company, were jointly engaged to manage the daily operation of the Hongye Chemical Enterprises, including keeping the accounting records, on behalf of the Administrators.

On September 16, 2019, 蕪湖順日信澤股權投資合夥企業(有限合夥) (Wuhu Shunri Xinze Equity Investment Partnership (LP)), ("Shunri Xinze"), a subsidiary of the 中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd., "China Cinda"), entered into an agreement with Heze Jinda, the Administrators, and the Hongye Chemical Enterprises. Pursuant to the agreement, Shunri Xinze will be the parent company of the Hongye Chemical Enterprises by injecting RMB4,200 million into the Hongye Chemical Enterprises which are directly paid to Heze Jinda, of which RMB180 million are attributed to the Target Company as capital reserve.

On September 20, 2019, Shunri Xinze directly or indirectly acquired 100% of the registered capital of the Hongye Chemical Enterprises which then became wholly-owned subsidiaries of Shunri Xinze, except for 1.23% equity interest in Fangming Chemical which was transferred to Shunri Xinze on October 17, 2019.

On September 27, 2020, the Court affirmed the completion of the required restructuring actions under the Plan. The Administrators made the payment to the relevant creditors based on the Plan. The Target Company is considered to have discharged all its obligations under the Plan as set out in Note 30.

The Historical Financial Information of the Target Company have been prepared solely for the purpose of inclusion in the financial information to be incorporated in the Circular of pages IIB-3-4 to IIB-3-45 dated December 8, 2020. Therefore, the comparative figures for the year ended December 31, 2016 have not been prepared.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

For the period prior to August 1, 2019, the accounting records available to the Administrators were incomplete. As the Administrators did not exercise any control over the business, property and affairs of the Target Company prior to their appointment on September 28, 2018, they do not have the same level of knowledge of the financial affairs of the Target Company as the Target Company's then directors. In addition, the key management and staff responsible for maintaining the accounting records of the Target Company prior to August 1, 2019 had left the Target Company. Although the Administrators have used their best endeavor to access all accounting records of the Target Company, they are unable to verify that all transactions entered into by the Target Company prior to their appointment are complete and accurate. Accordingly, the Administrators were unable to satisfy themselves as to the completeness and accuracy in respect of the opening balances, the potential claims, the commitments, the contingent liabilities and the pledge of assets in the management accounts prior to August 1, 2019.

Effective from August 1, 2019, the management of the Target Company has maintained accounting records and has prepared management accounts in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "MoF") and the implementation guidance, interpretations and other relevant provisions issued or revised subsequently by the MoF.

The Underlying Financial Statements are prepared by the Directors for the purpose of the Circular, based on the management accounts and accounting policies set out in Note 4 which conform with the IFRSs issued by the IASB. The basis of accounting under IFRSs differs in certain respects from that used in the preparation of the Target Company's management accounts. In preparing the Underlying Financial Statements, appropriate adjustments to conform with IFRSs, which are not taken up in the management accounts of the Target Company, have been made to the Underlying Financial Statements. The auditor of the Underlying Financial Statements as defined on Page IIB-3-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the Administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

In preparing the financial statements as at June 30, 2020, the Directors have considered the net current liabilities position of the Target Company of RMB282,342,000, including RMB344,409,000 relating to outstanding adjudicated indebtedness, as disclosed in Note 20. As at September 27, 2020, the outstanding adjudicated indebtedness of RMB339,874,000 were discharged and waived as appropriate, based on the payment ratio stipulated on the Plan and the Court's affirmation on the Plan's completion. Considering the discharge of the indebtedness, the Directors are of the opinion that the Target Company has sufficient financial resources to meet its working capital requirements and liabilities as and when they fall due for the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing and presenting the financial statements for the Reporting Periods, the Target Company has consistently applied IFRSs, which are effective for the accounting period beginning on January 1, 2020 throughout the Reporting Periods, except that the Target Company applied IFRS 9 "Financial Instruments" and IFRS 16 "Leases" from January 1, 2018 and January 1, 2019, respectively.

IFRS 9 Financial Instruments

The accounting policies for financial instruments which conform with IFRS 9 that are applicable from January 1, 2018 onwards and IAS 39 "Financial Instruments: Recognition and Measurement" which are applicable for the year ended December 31, 2017, are set out in Note 4 below.

The Target Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

The initial application of IFRS 9 has had no material impact on the classification and measurement of the Target Company as at January 1, 2018.

IFRS 16 Leases

The Target Company has applied IFRS 16 for the first time for the accounting period beginning on January 1, 2019. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

Definition of a lease

The Target Company has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Company has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Target Company applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Target Company has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Target Company applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts: elected not to recognize right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application or leases with low value.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Target Company is not required to make any adjustment on transition for leases in which the Target Company is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

The initial application of IFRS 16 had no material impact on the financial statements of the Target Company's financial instruments as at January 1, 2019.

New and revised IFRSs in issue but not yet effective

The Target Company has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[3]

1 Effective for annual periods beginning on or after January 1, 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2022
4 Effective for annual periods beginning on or after June 1, 2020
5 Effective for annual periods beginning on or after January 1, 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The financial statements has been prepared on the historical cost basis, as explained in the accounting policies below.

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 Company 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 financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases" or IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

The Target Company recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the products or services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;
- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or
- the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or services.

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

A point in time revenue recognition

The revenue of the Target Company is recognized at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from sales of goods to the Target Company's customers in connection with the production of the saturated steam are recognized when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

Leasing

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 3)

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.

For contracts entered into or modified on or after the date of initial application, the Target Company assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3)

Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Target Company as a lessor

Classification and measurement of leases

Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Leases for which the Target Company is a lessor are classified as operating leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Target Company's ordinary course of business are presented as revenue.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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.

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

Government grants

Government grants are not recognized until there is a reasonable assurance that the Target Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Target Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit scheme contribution

Payable to retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages, salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from (loss)/profit before taxation as reported in the statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (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 Company expects, at the end of each reporting period, to recover or settle the carrying amounts 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 by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income ("OCI") or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Target Company considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statements of financial position at cost, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Ownership interests in leasehold land and building

When the Target Company makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" (before application of IFRS 16) or "right-of-use assets" (after application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the costs less their residual values over their 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.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the profit or loss in the period which the item is derecognized.

Impairment on property, plant and equipment

At the end of each reporting period, the Target Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those 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 are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 (or the CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the CGU. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the CGU. An impairment loss is recognized immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using weighted average cost formula. Net realizable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments (before the adoption of IFRS 9 as at January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

Financial assets

The Target Company's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized and derecognized on the trade date, i.e., the date that the Target Company commits to purchase or sell the asset.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, trade receivables, amounts due from related parties, and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any identified impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from related parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance accounts are recognized in profit or loss. When a trade and other receivables and an amounts due from related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortized cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Target Company 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 instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities (including trade and other payables, amounts due to related parties and bank and other loans) are subsequently measured at amortized cost, using the effective interest method.

Derecognition

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

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

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial instruments (under IFRS 9 on or after January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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 IFRS 15. 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 amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the reporting 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 or 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 amortized cost:

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

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

Impairment under ECL model

The Target Company recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including other receivables, trade receivables, amounts due from related parties, deposit in Administrator account, cash and cash equivalents). The amount of ECL is updated at the end of each reporting period 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, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of each reporting period. Assessments are done based on the Target Company'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 end of each reporting period as well as the forecast of future conditions.

The Target Company always recognizes lifetime ECL for trade receivables and amounts due from related parties arising from contracts with customers. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except that significant or credit-impaired balances are assessed individually.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood of risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

Definition of default

For internal credit risk management, the Target Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay all amounts due in accordance with the contractual terms.

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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 following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;

- 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;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

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 adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Target Company recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and amounts due from related parties where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

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

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

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities at amortized cost, including trade and other payables, amounts due to related parties, the restructuring debts and bank and other loans, are initially measured at fair value, net of transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

Derecognition/modification of financial liabilities

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Target Company accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Target Company) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Target Company considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities is calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, which are described in Note 4, the Directors are required to make 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates 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 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 are as follows:

Key sources of estimation uncertainty

Useful life and impairment of property, plant and equipment

In determining whether an asset is impaired, the management requires an estimation of recoverable amount of an individual asset or the CGUs to which the asset belongs, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the assets, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset's value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the CGUs to which the assets belongs.

Changing the assumptions selected by management to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses as at December 31, 2017, 2018 and 2019 and June 30, 2020 were RMB209,212,000, RMB191,356,000, RMB173,171,000 and RMB164,504,000, respectively.

Estimated impairment of doubtful receivables

The Target Company recognizes lifetime ECL since January 1, 2018 for trade receivables assessing individually for debtors with significant or credit-impaired balances or collectively using a provision matrix by appropriate groupings. In addition, the Target Company recognizes lifetime ECL for other receivables when there has been a significant increase in credit risk since initial recognition. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. Further details are included in Note 27.

Taxation

Determining tax provisions involves judgement on the future tax treatments of certain transactions. The Target Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account of all changes in tax legislations.

Due to the change of management team and the restructuring proposal for the Target Company in the past few years as set out in Note 1, the Directors has exercised judgement in estimating the outcome of the tax exposure. Should the tax losses and/or relevant allowance be approved by the local tax authorities, it would have a corresponding adjustments on other gains and losses, income tax payables as set out in Note 14.

6. REVENUE AND SEGMENT INFORMATION

During the Reporting Periods, the Target Company's revenue represents the amount received and receivable from the sales of goods to external customers arising from the saturated steam, and the rental of the equipment. The revenue from sales of the saturated steam is recognized at a point in time when the customers obtain control of the goods delivered.

All sales from contracts with customers are for period of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods delivered and rental specifically, the Target Company's reportable segments under IFRS 8 are as follows:

Saturated steam and rental segment: marketing and selling the saturated steam and rent the equipment to Fangming Chemical.

The Target Company currently operates in one business segment. A single management team reports to the CODM who comprehensively manage the entire business. For the period from December 31, 2017 to June 30, 2020, there was only one business carried out by the Target Company and all of the Target Company's assets are derived and located in the PRC. Therefore, the Directors concluded that the Target Company is operated in a single reportable segment and no further analysis for segment information is presented.

The following is an analysis of the Target Company's revenue:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental of equipment	–	24,369	37,023	18,261	17,332
Revenue from contract with customers					
Sale of saturated steam	180,976	107,609	17,872	13,464	56
	180,976	131,978	54,895	31,725	17,388

7. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	1	1	–	–	–

8. OTHER EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss on bankruptcy restructuring *(note a)*	–	–	115,454	–	–
Loss on bankruptcy claims *(note b)*	89	566	–	–	–
Others	132	30	–	–	–
	221	596	115,454	–	–

Notes:

a. The debt of the Hongye Group Companies determined by the Court allocated to the Target Company by reference to the proportion of the capital contribution to the Hongye Group Companies on a pro-rata basis, in excess of the Target Company's own debt originally recorded.

b. Penalty interest and fine related to overdue debt.

9. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Impairment of property, plant and equipment	–	–	(1,453)	–	–
Debts waived *(note a)*	–	–	1,818	–	–
Others	1,728	2,039	4	2	47
	1,728	2,039	369	2	47

Note:

a. On June 30, 2020, the Hongye Chemical Enterprises and the Hongye Group Companies other than the Hongye Chemical Enterprises (the "Other Hongye Companies") entered into a waiver agreement to reiterate the waiver of the net balance as at December 31, 2019. Debt waived represents the waiver of the net amounts owing to the Other Hongye Companies.

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net impairment losses recognized in respect of:					
Trade and other receivables *(Note 17)*	(13,264)	(17,304)	(9,000)	–	–

11. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest on bank loans	11,907	2,725	–	–	–
Interest on other loans	2,019	3,427	–	–	–
	13,926	6,152	–	–	–

All interest charges have been suspended effective from September 28, 2018 onwards. Please refer to the Plan as set out in Note 1 for details.

12. (LOSS) PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Staff costs					
Salaries, wages and other benefits	7,178	7,508	7,878	4,151	3,080
Contributions to retirement benefits scheme	565	506	632	308	130
	7,743	8,014	8,510	4,459	3,210
Less: Capitalized in inventories	(7,289)	(8,014)	(8,510)	(4,459)	(3,210)
	454	–	–	–	–
Other items					
Depreciation of property, plant and equipment	17,856	17,856	17,856	8,927	8,897
Total depreciation	17,856	17,856	17,856	8,927	8,897
Less: Capitalized in inventories	(17,836)	(17,854)	(17,856)	(8,927)	(8,897)
	20	2	–	–	–
Cost of inventories recognized as an expense	161,201	133,459	75,807	31,346	14,827

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

During the Reporting Periods, no emolument was paid to the Directors, which include Liu Bin who resigned on September 20, 2019, and Yang Fuli who was appointed on September 20, 2019.

Five highest paid individuals

The five highest paid individuals of the Target Company during the Reporting Periods included no director, whose emoluments are disclosed above. The emoluments in respect of the highest paid individuals during the Reporting Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, wages and other benefits	308	248	610	240	230
	308	248	610	240	230

The remunerations of the five highest paid employees are within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Nil to HK$1,000,000	5	5	5	5	5

During the Reporting Periods, no amount was paid or payable by the Target Company to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office.

14. TAXATION

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax					
PRC income tax for the year/period	238	–	–	–	670

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for the Target Company is 25% for the Reporting Periods.

Taxation for the year/period can be reconciled to the (loss) profit before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss) profit before taxation	(7,826)	(24,459)	(145,542)	341	2,541
Tax at the PRC tax rate of 25%	(1,957)	(6,115)	(36,386)	85	635
Tax effect on:					
Non-deductible expenses	2,195	6,965	5,374	219	35
Unused tax losses and temporary differences not recognized	–	–	31,012	–	–
Utilisation of tax losses previously not recognized	–	(850)	–	(304)	–
Taxation for the year/period	238	–	–	–	670

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the Target Company has deductible temporary differences of approximately RMB13,264,000, RMB30,568,000, RMB39,568,000 and RMB39,568,000, respectively, which are mainly arising from impairment of trade and other receivables of the Target Company. No deferred tax asset has been recognized in relation to such temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilized.

The Directors resubmitted the tax filing to the relevant tax authorities for the past few years, however the tax losses and relevant allowance cannot be ascertained up to the report date.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
Cost					
At January 1, 2017	61,425	238,309	168	680	300,582
At December 31, 2017	61,425	238,309	168	680	300,582
At December 31, 2018	61,425	238,309	168	680	300,582
Additions	–	1,124	–	–	1,124
At December 31, 2019	61,425	239,433	168	680	301,706
Additions	–	230	–	–	230
At June 30, 2020	61,425	239,663	168	680	301,936
Depreciation and impairment					
At January 1, 2017	9,531	63,330	160	493	73,514
Depreciation	2,334	15,508	–	14	17,856
At December 31, 2017	11,865	78,838	160	507	91,370
Depreciation	2,334	15,508	–	14	17,856
At December 31, 2018	14,199	94,346	160	521	109,226
Depreciation	2,334	15,508	–	14	17,856
Impairment	–	1,453	–	–	1,453
At December 31, 2019	16,533	111,307	160	535	128,535
Depreciation	1,167	7,723	–	7	8,897
At June 30, 2020	17,700	119,030	160	542	137,432
Carrying amounts					
At December 31, 2017	49,560	159,471	8	173	209,212
At December 31, 2018	47,226	143,963	8	159	191,356
At December 31, 2019	44,892	128,126	8	145	173,171
At June 30, 2020	43,725	120,633	8	138	164,504

The above items of property, plant and equipment, after taking into account their estimated residuals, are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Machinery and equipment	5–30 years
Motor vehicles	3–12 years
Office equipment	2–15 years

As at December 31, 2017, 2018 and 2019 and June 30, 2020, no property, plant and equipment were pledged.

All leasehold land and buildings are located in the PRC.

16. INVENTORIES

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	8,118	5,136	3,265	2,295
Finished goods	2,003	–	–	–
	10,121	5,136	3,265	2,295

17. OTHER RECEIVABLES/TRADE RECEIVABLES

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	18,043	16,846	17,825	23,144
Less: impairment	(3,244)	(8,825)	(17,825)	(17,825)
	14,799	8,021	–	5,319
Prepayments for raw materials	12,547	18,068	4,136	4,868
Other deposits, prepayments and other receivables	10,039	25,088	21,743	21,743
Deductible input Value Added Tax and prepaid other taxes and charges	6,836	746	283	–
Less: impairment	(10,020)	(21,743)	(21,743)	(21,743)
	19,402	22,159	4,419	4,868

Aging of trade receivables net of allowance for bad debts based on invoice dates, which approximated the respective revenue recognition dates, are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	4	–	–	5,319
1 to 3 months	241	–	–	–
3 to 6 months	477	8,021	–	–
6 to 12 months	14,077	–	–	–
	14,799	8,021	–	5,319

The table below is analysis of trade receivables as at December 31, 2017 under IAS 39:

	As at December 31, 2017
	RMB'000
Not past due and not impaired	–
Past due but not impaired	14,799
Total trade receivables	14,799

Starting from January 1, 2018, the Target Company applied the ECL model prescribed by IFRS 9, and the impairment methodology of ECL model is set out in note 27.

The movements in the allowance for doubtful debts are as follows:

	Year ended December 31,			Six months ended June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	–	13,264	30,568	39,568
Impairment losses recognized on receivables	13,264	17,304	9,000	–
At the end of the reporting period	13,264	30,568	39,568	39,568

18. CASH AND CASH EQUIVALENTS

Bank balances carried interest at market interest rate ranging from 0.3% to 0.35% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Bank balances and cash as at December 31, 2017, 2018 and 2019 and June 30, 2020 were denominated in RMB.

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	173	220	108	92

19. BANK AND OTHER LOANS

The analysis of the carrying amount of bank and other loans is as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– unsecured	76,815	–	–	–

At the end of each reporting period, the bank and other loans were payable as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	76,815	–	–	–

Analyzed for reporting purpose as:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities	76,815	–	–	–

The bank and other loans carry interest at 4.35% per annum.

In 2017, the Target Company breached the covenants in a loan agreement, which are primarily related to the debt-equity ratio of the Target Company. The carrying amounts of bank and other loans that are repayable on demand due to breach of loan covenants were shown under current liabilities.

According to the judgment made by the Court on September 28, 2018, all bank and other loans were reclassified to restructuring debts as set out in Note 20.

20. RESTRUCTURING DEBTS

	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*
Salaries payable *(note a)*			
– trade and other payables	5,394	1,828	703
Secured and unsecured debts confirmed by the Administrators *(note b and c)*			
– trade and other payables	187,037	176,026	157,613
– bank and other loans *(Note 19)*	82,019	72,858	72,858
	269,056	248,884	230,471
Unconfirmed debts by the Administrators *(note d)*			
– trade and other payables	113,235	113,235	113,235
	387,685	363,947	344,409

Restructuring debts represent indebtedness entering into adjudication process effective from September 28, 2018 and the debts affirmed by the Court on July 31, 2019 after due adjudication by the Administrators.

According to the Plan disclosed in Note 1, the adjudicated indebtedness below are to be settled based on the payment sequence and ratio stipulated in the Plan, using the funds injected by the Shunri Xinze, with the balance to be discharged upon the completion of such payment and the Court's affirmation of such completion. The relevant indebtedness includes:

(a) the taxes payable and salaries payable which will be paid in full;

(b) secured debts, if any, will be paid at a percentage of the realized value of the pledged assets and the unpaid portion will be fulfilled together with other unsecured debts;

(c) unsecured debts less than RMB200,000 which will be paid in full and unsecured debts more than RMB200,000 which will be paid at ratio of 11.13% according to the Plan; and

(d) unconfirmed debts, which consist of debts pending for endorsement by creditors and the Court as well as potential creditor claims yet to be received, will be paid in accordance with the Plan for the similar indebtedness.

The total estimated indebtedness affirmed by the Court is approximately RMB387,685,000 as at September 28, 2018. As disclosed in Note 30, the Court affirmed on September 27, 2020 the completion of the Plan including the payment made by Shunri Xinze in September 2019, out of which the Administrators paid the debts claimants in accordance with the Plan. The resulting gain of RMB323,138,100, being the balance of the indebtedness waived and discharged in line with the Plan, are considered by the Directors as an non-adjusting subsequent event. As of the date of September 27, 2020, the balance of fund in Administrator account amounted to RMB16,969,000.

21. TRADE AND OTHER PAYABLES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	127,649	7,470	4,052	4,948
Payables for property, plant and equipment	21,264	48	37	920
Other payable and accruals	181,434	1,881	813	239
	330,347	9,399	4,902	6,107

Trade and other payables are generally expected to be settled within one year.

The following is an aging analysis of trade payables and based on the invoice date at the end of each reporting period:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	56,964	7,470	3,829	545
3 to 6 months	3	–	–	4,403
7 to 12 months	3,360	–	191	–
1–2 years	2,250	–	32	–
2–3 years	58,044	–	–	–
More than 3 years	7,028	–	–	–
	127,649	7,470	4,052	4,948

According to the judgment made by the Court on September 28, 2018, the carrying value of trade and other payables as at September 28, 2018 were reclassified to restructuring debts as set out in Note 20.

22. SHARE CAPITAL

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Presented in the statements of financial position as:	70,000	70,000	70,000	70,000

23. RESERVES

Capital reserve

In 2018, the change of capital reserve represents the net amount owning to the Target Company of RMB153,053,000 waived according to the waiver agreements within the Hongye Group Companies which was accounted for as a deemed capital reduction and recognized in capital reserve.

In 2019, the addition of capital reserve represents capital injection amounting to RMB180,000,000 from Shunri Xinze as set out in Notes 1 and 20.

Reserve fund

The Articles of Association of the Target Company require the appropriation of 10% of their profit after tax, based on their statutory audited financial statements, to the reserve fund each year until the balance reaches 50% of the registered capital of the Target Company. The reserve fund may be capitalized as the paid-in capital.

Safety fund

Pursuant to relevant PRC regulation, the Target Company is required to transfer from 0.2% to 4% of revenue generated from sales of saturated steam for the periods. The Target Company is required to make a transfer for the provision of safety fund from retained profits to a specific reserve. The safety fund could be utilized when expenses or capital expenditures on safety operation or measures are incurred. The amount of safety fund utilized would be transferred from the specific reserve back to retained profits.

24. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the Target Company participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities whereby the Target Company is required to make contributions to the Schemes based on applicable rates. The municipal government authorities are responsible for the entire pension obligations payable to retired employees.

The Target Company has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

25. RELATED PARTY TRANSACTIONS AND BALANCES

Prior to September 20, 2019, the following entities were considered as the related companies of the Target Company:

Name of related party	**Relationship with the Target Company**
洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd)	Ultimate holding company in Other Hongye Companies
山東洪業如松化工設備安裝有限公司 (Shandong Hongye Rusong Chemical Equipment Installation Co., Ltd)	*note b*
山東吉昌化工有限責任公司 (Shandong Jichang Chemical Co., Ltd)	*note b*
菏澤開發區洪源小額貸款有限公司 (Heze Development Zone Hongyuan Small Loan Co., Ltd)	*note b*
菏澤市洪源供水有限公司 (Heze Hongyuan Water Supply Co., Ltd)	*note b*
菏澤洪方商貿有限公司 (Heze Hongfang Trading Co., Ltd)	*note b*
上海洪魯國際貿易有限公司 (Shanghai Honglu International Trade Co., Ltd)	*note b*
上海多凱國際貿易有限公司 (Shanghai Duokai International Trade Co., Ltd)	*note b*
上海洪魯化工技術有限公司 (Shanghai Honglu Chemical Technology Co., Ltd)	*note b*
山東天秀化工貿易有限公司 (Shandong Tianxiu Chemical Trade Co., Ltd)	*note b*
山東吉安化工有限公司 (Shandong Ji'an Chemical Co., Ltd)	*note b*
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明藥業集團股份有限公司 (Shandong Fangming Pharmaceutical Group Co., Ltd)	*note c*
菏澤市方明製藥有限公司 (Heze Fangming Pharmaceutical Co., Ltd)	*note c*
上海眾諾國際貿易有限公司 (Shanghai Zhongnuo International Trade Co., Ltd)	*note c*
山東方明邦嘉製藥有限公司 (Shandong Fangming Bangjia Pharmaceutical Co., Ltd)	*note c*
東明縣洪方化工科技服務有限公司 (Dongming Hongfang Chemical Technology Service Co., Ltd)	*note c*
菏澤堯舜牡丹生物科技有限公司 (Heze Yaoshun Peony Biotechnology Co., Ltd)	*note c*

Name of related party	Relationship with the Target Company
菏澤堯舜酒店管理有限公司 (Heze Yaoshun Hotel Management Co., Ltd)	*note c*
菏澤市中小企業融資擔保有限公司 (Heze SME Financing Guarantee Co., Ltd)	*note c*
山東洪方精細化工有限公司 (Shandong Hongfang Fine Chemical Co., Ltd)	*note c*
山東東藥藥業股份有限公司 (Shandong Dongyao Pharmaceutical Co., Ltd)	*note c*
菏澤萊佛生物科技有限公司 (Heze Laifo Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
菏澤百奧靈生物科技有限公司 (Heze Baiaoling Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
山東洪豐麵粉有限公司 (Shandong Hongfeng Flour Co., Ltd)	*note c*
開封天池化工有限公司 (Kaifeng Tianchi Chemical Co., Ltd)	*note c*

Note a: According to the Plan set out in Note 1, certain entities ceased to be a related company of the Target Company from September 20, 2019 onwards.

Note b: Fellow subsidiary in the Other Hongye Companies.

Note c: Entity controlled by the then ultimate beneficial owner in the Other Hongye Companies.

Note d: According to the Plan, the related party balances as at September 28, 2018 were waived within the Hongye Group Companies.

Subsequent to September 20, 2019, the following entities were considered as the related companies of the Target Company.

Name of related party	Relationship with the Target Company
中國信達資產管理股份有限公司 (China Cinda)	Ultimate holding company
蕪湖順日信澤股權投資合夥企業(有限合夥) (Shunri Xinze)	Immediate holding company
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

Other than the transactions disclosed in Notes 1, 20 and 23 in the Historical Financial Information, the Target Company entered into the following material related party transactions:

(a) Transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchases of goods from					
– Fellow subsidiaries	7,739	12,016	3,584	834	138
– Other Hongye Companies	87,565	452	746	547	–
Sales of goods to					
– Fellow subsidiaries	152,862	80,656	54,760	12,931	56
– Other Hongye Companies	418	–	–	–	–
Administrative fee to					
– Other Hongye Companies	1,061	316	–	–	–
Rental income					
– Fellow subsidiaries	–	24,369	37,023	18,261	17,332
Rental expenses					
– Fellow subsidiaries	–	–	–	–	138

The above related party transactions were conducted in accordance with terms of the relevant agreements.

(b) Balances with related parties

At the end of each reporting period, the Target Company had the following balances with related parties:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
Non-trade nature				
– Fellow subsidiaries	199,833	223,712	223,976	56,008
– Other Hongye Companies	963	–	–	–
	200,796	223,712	223,976	56,008
Trade nature				
– Other Hongye Companies	14,872	–	–	–
	14,872	–	–	–
Analyzed for reporting purposes as:				
Current portion	215,668	223,712	223,976	56,008

Aging of amounts due from related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	14,872	–	–	–

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to related parties				
Non-trade nature				
– Fellow subsidiaries	–	207,687	196,842	21,243
– Other Hongye Companies	1,861	–	–	–
	1,861	207,687	196,842	21,243
Trade nature				
– Fellow subsidiaries	17,378	–	–	–
– Other Hongye Companies	19,391	–	–	–
	36,769	–	–	–
Analyzed for reporting purposes as:				
Current portion	38,630	207,687	196,842	21,243

Aging of amounts due to related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	4,345	–	–	–
1 to 3 months	13,033	–	–	–
4 to 6 months	5,385	–	–	–
6 to 12 months	13,315	–	–	–
1 to 2 years	691	–	–	–
	36,769	–	–	–

26. CAPITAL MANAGEMENT

The Target Company's primary objectives of managing capital are to safeguard the Target Company's ability to continue as a going concern, and to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions.

Based on recommendations of the board of directors, the Target Company will balance its overall capital structure through adjusting the amount of dividends paid to shareholders, issues of new shares, raise new debt financing or selling assets to reduce debt. During the Reporting Periods, the objectives, policies or processes were changed from July 31, 2019 onwards, upon the engagement of the Risun Chemicals as the operation agent as per agreement.

The Target Company monitors capital with reference to its debt position. The Target Company's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligation.

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of each reporting period are set out as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Target Company				
Financial assets				
Loans and receivables (including cash and cash equivalents)	230,659	–	–	–
Financial assets at amortized cost	–	235,298	265,127	82,924
Financial liabilities				
Financial liabilities at amortized cost	443,644	597,539	563,175	370,920

Financial risk management objectives and policies

The Target Company's major financial instruments include trade receivables, other receivables, amounts due from related parties, deposit in Administrator account, cash and cash equivalents, trade and other payables, restructuring debts, amounts due to related parties, and bank and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. From July 31, 2019 onwards, the management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

For the year ended December 31, 2019 and the period ended June 30, 2020, the Director(s) consider that the interest rate risk of the Target Company is limited as the finance charges have been suspended. Please refer to the Plan as set out in Note 1 for details.

Due to incomplete record, change of management team and the Plan as set out in Note 1, in management's opinion, the disclosures of interest rate risk for the years ended December 31, 2017 and 2018 are unrepresentative as the year-end exposure does not reflect the exposure of the Target Company during the relevant years. Thus, no disclosures were prepared.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Company's counterparties default on their contractual obligations resulting in financial losses to the Target Company. The Target Company's credit risk exposures are primarily attributable to trade receivables, other receivables, cash and cash equivalents, amounts due from related parties and deposit in Administrator account. The Target Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

At the end of each reporting period, other than financial assets whose carrying amounts best represent the maximum credit risk, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the amount of contingent liabilities disclosed in Note 29.

In order to minimize the credit risk, the Target Company mainly conducted transactions with customers with good quality, when accepting new customers, the Target Company requests advanced payment before the goods delivered.

To manage risk arising from bank balances, the Target Company mainly transacts with state-owned or reputable financial institutions in PRC. There has been no recent history of default in relation to these financial institutions. Therefore the management of the Target Company considers the credit risk arising from cash and cash equivalents is insignificant.

For trade receivables and amounts due from related parties of trade nature, the Target Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The ECL on these assets are assessed individually for debtors with significant or credit-impaired balances or collectively using a provision matrix by appropriate groupings. As part of the Target Company's credit risk management, the Target Company uses debtors' aging to assess the impairment for its customers because its customers share common risk characteristics that are representative of the customers' abilities to pay the amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted using forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

For all other instruments including, other receivables, deposit in Administrator account and amounts due from related parties of non-trade nature, the Target Company measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The Target Company has assessed and concluded that the risk of default rate for these instruments is steady based on the Target Company's assessment of the financial health of the counterparties.

The tables below detail the credit risk exposures of the Target Company's trade and other receivables, deposit in administrator account and amounts due from related parties, which are subject to ECL assessment:

	Notes	Internal credit rating	12-month or lifetime ECL	December 31, 2018 Gross carrying amount		December 31, 2019 Gross carrying amount		June 30, 2020 Gross carrying amount	
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortized cost									
Other receivables	17	*Note*	12-month ECL	3,345		–		–	
			Credit-impaired (individually)	21,743	25,088	21,743	21,743	21,743	21,743
Deposit in administrator account		*Note*	12-month ECL	–	–	41,043	41,043	21,505	21,505
Amounts due from related parties	25	*Note*	12-month ECL	–		–		864	
			Not Credit-impaired (individually)	223,712	223,712	223,976	223,976	55,144	56,008
Trade receivables	17	*Note*	Lifetime ECL (provision matrix)	8,021		–		5,319	
			Credit-impaired (individually)	8,825	16,846	17,825	17,825	17,825	23,144

Note: These balances are unsecured and with no fixed repayment terms. Set out below is the impairment provision of the financial assets.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables and amounts due from related parties of trade nature under the simplified approach:

	Lifetime ECL (not credit impaired)	**Lifetime ECL (credit impaired)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2018	–	3,244	3,244
– Impairment losses recognized	–	5,581	5,581
At December 31, 2018	–	8,825	8,825
– Impairment losses recognized	–	9,000	9,000
At December 31, 2019 and June 30, 2020	–	17,825	17,825

The credit risk of trade receivables based on the Target Company's provision matrix was insignificant.

The trade receivables with gross carrying amounts of RMB8,825,000, RMB17,825,000 and RMB17,825,000 as at December 31, 2018, December 31, 2019 and June 30, 2020, respectively, were assessed individually, and impairment allowance of RMB8,825,000, RMB17,825,000 and RMB17,825,000 were made on these debtors.

The following table shows reconciliation of loss allowances that have been recognized for other receivables:

	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2018	–	–	10,020	10,020
– Impairment losses recognized	–	–	11,723	11,723
As at December 31, 2018, 2019 and June 30, 2020	–	–	21,743	21,743

Liquidity risk

The Directors are responsible for cash management of the Target Company, including the raising of loans to cover expected cash demands. The Target Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

At the end of each reporting period, almost all remaining contractual maturities of the Target Company's financial liabilities were within one year.

Fair values

Fair values of financial instruments carried at amortized cost

Except for the fair values of the restructuring debts, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information of the Target Company approximate their fair values due to short maturity or with floating interest rates. The fair values of restructuring debts amounting to RMB40,808,000 and RMB21,271,000 as at December 31, 2019 and June 30, 2020, respectively, are evaluated based on the future cash flow of restructuring debts in accordance with the Plan and the investment agreement.

28. COMMITMENTS

Capital commitments outstanding at the end of each reporting period not provided for in the Historical Financial Information of the Target Company were as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure in respect of – property, plant and equipment	–	–	–	3,540

29. CONTINGENT LIABILITIES

Undeclared claims of the Target Company

According to the Plan, the undeclared creditors, of which no provision was made by the Target Company, will have right to request payment within two years after the completion of the Plan on September 27, 2020. The Directors believe, based on the indemnity provided by Heze Jinda, that further payment to be made by the Target Company is remote and therefore no further provision is required.

30. EVENTS AFTER REPORTING PERIODS

As disclosed in Note 20, the Court affirmed the completion of the Plan on September 27, 2020.

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to June 30, 2020.

The following is the text of a report set out on pages IIB-4-1 to IIB-4-54, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF 山東洪達化工有限公司 (SHANDONG HONGDA CHEMICAL CO., LTD.) TO THE DIRECTORS OF CHINA RISUN GROUP LIMITED

Introduction

We are engaged to report on the historical financial information of 山東洪達化工有限公司 (Shandong Hongda Chemical Co., Ltd., the "Hongda Chemical", the "Target Company") set out on pages IIB-4-4 to IIB-4-54, which comprises the statements of financial position of the Target Company as at December 31, 2017, 2018 and 2019 and June 30, 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Reporting Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IIB-4-4 to IIB-4-54 forms an integral part of this report, which has been prepared for inclusion in the circular of China Risun Group Limited (the "Company") dated December 8, 2020 (the "Circular") in connection with the proposed acquisition of the Target Company.

Responsibilities of the Directors of the Target Company and the Company

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

The directors of the Company are responsible for the content of this Circular in which the Historical Financial Information of the Target Company 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 conduct 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") and to report to you. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

We complied with ethical standards as required by this standard.

Disclaimer of Opinion on the Historical Financial Information of the Target Company

We do not express an opinion on the Historical Financial Information of the Target Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company

As set out in Note 2 to the Historical Financial Information, the Historical Financial Information of the Target Company was prepared based on incomplete accounting records. The auditor of the Underlying Financial Statements as defined on page IIB-4-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the bankruptcy administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

We were unable to carry out the procedures we considered necessary to assess the impact of the matter described on the Underlying Financial Statements to form a basis for an audit opinion on the Historical Financial Information. We were also unable to determine whether any adjustments might have been found necessary in respect of the Historical Financial Information of the Target Company.

Disclaimer of Conclusion on Stub Period Comparative Financial Information of the Target Company

We were engaged to review the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information of the Target Company"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information of the Target Company in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of the Target Company. Our responsibility is to conduct our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Because of the significance of the matters described in the Basis for Disclaimer of Conclusion on the Stub Period Comparative

Financial Information of the Target Company section of our report, we were unable to obtain sufficient appropriate evidence to form a conclusion on the Stub Period Comparative Financial Information of the Target Company. Accordingly, we do not express a conclusion on the Stub Period Comparative Financial Information of the Target Company.

Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company

We were unable to carry out the procedures we considered necessary to assess the consequential impact of the matters described on the Underlying Financial Statements and the Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company section of our report to form a basis for a conclusion on the Stub Period Comparative Financial Information of the Target Company. We were also unable to determine whether any adjustments might have been found necessary in respect of the Stub Period Comparative Financial Information of the Target Company.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

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

Dividends

No dividend was declared or paid by the Target Company in respect of the Reporting Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

December 8, 2020

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of the Historical Financial Information of the Target Company

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

The financial statements of the Target Company for the Reporting Periods, on which the Historical Financial Information of the Target Company is based, have been prepared by the directors of the Target Company (the "Directors") in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements") of which a disclaimer of opinion was issued as set out in Note 2.

The Historical Financial Information of the Target Company is presented in Renminbi ("RMB"), which is also the functional currency of the Target Company, and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended June 30,	
	Notes	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue from contracts with customers	6	1,855,135	2,007,642	2,475,892	1,045,931	1,260,272
Cost of sales		(1,816,664)	(1,828,860)	(2,391,865)	(1,008,979)	(1,173,232)
Gross profit		38,471	178,782	84,027	36,952	87,040
Other income	7	12,700	16	31	8	300
Other expense	8	(37,343)	(87,763)	(883,678)	–	(1,273)
Other gains and losses	9	1,564	14,827	(48,209)	1,393	89
Impairment losses, net of reversal	10	(74,041)	(15,377)	(13,819)	–	(4,491)
Selling and distribution expenses		(38,435)	(5,503)	(59,493)	(33,844)	(2,662)
Administrative expenses		(120,938)	(114,561)	(134,142)	(37,081)	(39,031)
(Loss) profit from operations		(218,022)	(29,579)	(1,055,283)	(32,572)	39,972
Finance costs	11	(156,519)	(47,567)	–	–	–
(Loss) profit before taxation	12	(374,541)	(77,146)	(1,055,283)	(32,572)	39,972
Taxation	14	–	–	–	–	(10,637)
(Loss) profit for the year/period		(374,541)	(77,146)	(1,055,283)	(32,572)	29,335
Total comprehensive (expense) income for the year/period		(374,541)	(77,146)	(1,055,283)	(32,572)	29,335
(Loss) profit for the year/period attributable to equity holder of the Target Company		(374,541)	(77,146)	(1,055,283)	(32,572)	29,335
Total comprehensive (expense) income for the year/period attributable to equity holder of the Target Company		(374,541)	(77,146)	(1,055,283)	(32,572)	29,335

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

		As at December 31,			As at June 30,
	Notes	**2017**	**2018**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	15	1,663,532	1,535,683	1,383,457	1,377,735
Right-of-use assets	16	–	–	73,876	84,365
Prepaid lease payments	17	75,711	73,873	–	–
Investment in a subsidiary	18	–	–	–	–
Prepayments for construction in progress		–	–	–	22,904
		1,739,243	1,609,556	1,457,333	1,485,004
Current assets					
Prepaid lease payments	17	1,879	1,838	–	–
Inventories	19	45,485	188,067	263,331	200,771
Other receivables	20	201,890	228,144	48,388	31,035
Trade and bills receivables	20	165,428	–	–	–
Trade and bills receivables measured at fair value through other comprehensive income ("FVTOCI")	20	–	120,703	189,527	237,332
Amounts due from related parties	29(b)	348,703	90,583	139,109	209,203
Deposit in Administrator account		–	–	317,209	96,173
Restricted bank balances	21	270	270	271	272
Cash and cash equivalents	22	10,077	6,626	10,799	5,144
		773,732	636,231	968,634	779,930

	Notes	As at December 31, 2017 RMB'000	2018 RMB'000	2019 RMB'000	As at June 30, 2020 RMB'000
Current liabilities					
Trade and other payables	25	1,110,172	292,291	259,418	341,935
Contract liabilities		–	3,900	504	3,109
Restructuring debts	24	–	2,594,316	1,937,214	1,718,053
Income tax payables		–	–	–	10,637
Bank and other loans	23	1,575,155	–	–	–
Amounts due to related parties	29(b)	2,273,749	28,992	137,826	70,860
		4,959,076	2,919,499	2,334,962	2,144,594
Net current liabilities		(4,185,344)	(2,283,268)	(1,366,328)	(1,364,664)
Total assets less current liabilities and net (liabilities) assets		(2,446,101)	(673,712)	91,005	120,340
Capital and reserves					
Share capital	26	371,000	371,000	371,000	371,000
Reserves	27	(2,817,101)	(1,044,712)	(279,995)	(250,660)
Total (deficit) equity attributable to equity holder of the Target Company		(2,446,101)	(673,712)	91,005	120,340
Total (deficit) equity		(2,446,101)	(673,712)	91,005	120,340

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company				
	Share capital	**Capital reserve**	**Safety fund**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 26)	*(Note 27)*			
Balance at January 1, 2017	371,000	–	–	(2,442,560)	(2,071,560)
Loss for the year	–	–	–	(374,541)	(374,541)
Net transfer to safety fund	–	–	7,411	(7,411)	–
Balance at December 31, 2017	371,000	–	7,411	(2,824,512)	(2,446,101)
Capital contribution	–	2,844,767	–	–	2,844,767
Deemed capital reduction	–	(995,232)	–	–	(995,232)
Loss for the year	–	–	–	(77,146)	(77,146)
Net transfer to safety fund	–	–	4,214	(4,214)	–
Balance at December 31, 2018	371,000	1,849,535	11,625	(2,905,872)	(673,712)
Capital contribution	–	1,820,000	–	–	1,820,000
Loss for the year	–	–	–	(1,055,283)	(1,055,283)
Net transfer to safety fund	–	–	6,671	(6,671)	–
Balance at December 31, 2019	371,000	3,669,535	18,296	(3,967,826)	91,005
Profit for the period	–	–	–	29,335	29,335
Net transfer to safety fund	–	–	1,147	(1,147)	–
Balance at June 30, 2020	371,000	3,669,535	19,443	(3,939,638)	120,340
Balance at January 1, 2019	371,000	1,849,535	11,625	(2,905,872)	(673,712)
Loss for the period	–	–	–	(32,572)	(32,572)
Net transfer to safety fund	–	–	3,958	(3,958)	–
Balance at June 30, 2019 (unaudited)	371,000	1,849,535	15,583	(2,942,402)	(706,284)

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
(Loss) profit before taxation		(374,541)	(77,146)	(1,055,283)	(32,572)	39,972
Adjustments for:						
Other income		(12,700)	(16)	(31)	(8)	(300)
Other expense		35,674	87,143	883,584	–	–
Other gains or losses, net		–	–	50,058	–	–
Finance costs		156,519	47,567	–	–	–
Impairment losses, net of reversal		74,041	15,377	13,819	–	4,491
Depreciation and amortisation		20,011	15,563	5,469	2,246	2,104
Operating cash flows before movements in working capital		(100,996)	88,488	(102,384)	(30,334)	46,267
Decrease/(increase) in inventories		198,977	(12,165)	67,204	(73,165)	132,761
Decrease/(increase) in trade receivables and bills receivable, and other receivables		280,316	3,094	97,112	(390,737)	(55,977)
(Decrease)/increase in trade payables, other payables		(547,974)	119,510	(66,049)	83,634	85,218
(Decrease)/increase in amounts due from related parties		(341,853)	252,534	(49,790)	(45,815)	(70,094)
(Decrease)/increase in amounts due to related parties		–	(395,222)	108,478	501,329	(68,907)
Net cash (used in) generated from operating activities		(511,530)	56,239	54,571	44,912	69,268

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Investing activities						
Interest received		2,932	16	31	8	300
Purchases of property, plant and equipment		(33,456)	(27,132)	(52,115)	(39,511)	(66,657)
Proceeds from disposal of property, plant and equipment		–	–	66	65	–
Additions to right of use		–	–	–	–	(11,507)
Withdraw of pledged bank deposits		255,730	–	–	–	–
Net cash generated from (used in) investing activities		225,206	(27,116)	(52,018)	(39,438)	(76,864)
Financing activities						
New bank borrowings		1,274,211	9,427	–	–	–
Repayment of bank borrowings		(866,010)	(20)	–	–	–
Interest paid		(156,519)	(47,567)	–	–	–
Decrease/(increase) in amounts due from related parties		(6,850)	5,586	1,264	8,113	–
Increase/(decrease) in amounts due to related parties		–	–	356	–	1,941
Net cash generated from (used in) financing activities		244,832	(32,574)	1,620	8,113	1,941
Net (decrease) increase in cash and cash equivalents		(41,492)	(3,451)	4,173	13,587	(5,655)
Cash and cash equivalents at the beginning of the year/period		51,569	10,077	6,626	6,626	10,799
Cash and cash equivalents at the end of the year/period	22	10,077	6,626	10,799	20,213	5,144

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BANKRUPTCY RESTRUCTURING

Hongda Chemical was established in the People's Republic of China (the "PRC") on September 12, 2008 with limited liability. The registered office of the Target Company is Chemical Industry Park, Yuncheng County, Heze, Shandong Province, the PRC. The Target Company is engaged in the production, sale and distribution of coke and coking chemicals (the "Core Business").

On September 28, 2018, Heze Intermediate People's Court in China (the "Court") appointed bankruptcy administrators (the "Administrators") for 洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd, "Hongye Chemical"), the ultimate holding company of the Target Company, its subsidiaries and certain other related companies (collectively referred to as the "Hongye Group Companies").

On July 31, 2019, the Court affirmed the restructuring proposal (the "Plan"), which includes:

- the acquisition of the Hongye Group companies including the Target Company, 山東方明化工股份有限公司(Shandong Fangming Chemical Co., Ltd., the "Fangming Chemical"), 山東東巨化工股份有限公司 (Shandong Dongju Chemical Co., Ltd., the "Dongju Chemical"), 山東恒順供熱有限公司 (Shandong Hengshun Heat Supply Co., Ltd., the "Hengshun Heat Supply"), 山東洪鼎化工有限公司 (Shandong Hongding Chemical Co., Ltd., the "Hongding Chemical") and 山東勇智化工有限公司 (Shandong Yongzhi Chemical Co., Ltd., the "Yongzhi Chemical") (collectively referred to as the "Hongye Chemical Enterprises") by Heze Jinda Asset Management Company ("Heze Jinda", the sole restructuring investor); and

- a capital restructuring and debt restructuring of the Hongye Group Companies, as well as injection of funds into the Hongye Chemical Enterprises to restructure its indebtedness adjudicated by the Administrators as set out in Note 24. According to the Plan and Article 46 of the "Enterprise Bankruptcy Law" of the PRC, all adjudicated creditor claims fell due and payable and all interest charges, if applicable, have been suspended effective from the date of the Court's affirmation of the Plan.

Since July 2019, 旭陽集團有限公司 (Risun Group Limited, "Risun Chemicals", formerly known as 旭陽化工有限公司 Risun Chemicals Limited) and its subsidiary 北京旭陽宏業化工有限公司 (Beijing Risun Hongye Chemicals Company Limited), subsidiaries of the Company, were jointly engaged to manage the daily operation of the Hongye Chemical Enterprises, including keeping the accounting records, on behalf of the Administrators.

On September 16, 2019, 蕪湖順日信澤股權投資合夥企業 (有限合夥) (Wuhu Shunri Xinze Equity Investment Partnership (LP), "Shunri Xinze"), a subsidiary of the 中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd., "China Cinda"), entered into an agreement with Heze Jinda, the Administrators, and the Hongye Chemical Enterprises. Pursuant to the agreement, Shunri Xinze will be the parent company of the Hongye Chemical Enterprises by injecting RMB4,200 million into the Hongye Chemical Enterprises which are directly paid to Heze Jinda, of which RMB1,820 million are attributed to the Target Company as capital reserve.

On September 20, 2019, Shunri Xinze directly or indirectly acquired 100% of the registered capital of the Hongye Chemical Enterprises which then became wholly-owned subsidiaries of Shunri Xinze, except for 1.23% equity interest in Fangming Chemical which was transferred to Shunri Xinze on October 17, 2019.

On September 27, 2020, the Court affirmed the completion of the required restructuring actions under the Plan. The Administrators made the payment to the relevant creditors based on the Plan. The Target Company is considered to have discharged all its obligations under the Plan as set out in Note 35.

The Historical Financial Information of the Target Company has been prepared solely for the purpose of inclusion in the financial information to be incorporated in the Circular of pages IIB-4-4 to IIB-4-54 dated December 8, 2020. Therefore, the comparative figures for the year ended December 31, 2016 have not been prepared.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

For the period prior to August 1, 2019, the accounting records available to the Administrators were incomplete. As the Administrators did not exercise any control over the business, property and affairs of the Target Company prior to their appointment on September 28, 2018, they do not have the same level of knowledge of the financial affairs of the Target Company as the Target Company's then directors. In addition, the key management and staff responsible for maintaining the accounting records of the Target Company prior to August 1, 2019 had left the Target Company. Although the Administrators have used their best endeavor to access all accounting records of the Target Company, they are unable to verify that all transactions entered into by the Target Company prior to their appointment are complete and accurate. Accordingly, the Administrators were unable to satisfy themselves as to the completeness and accuracy in respect of the opening balances, the potential claims, the commitments, the contingent liabilities and the pledge of assets in the management accounts prior to August 1, 2019.

Effective from August 1, 2019, the management of the Target Company has maintained accounting records and has prepared management accounts in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "MoF") and the implementation guidance, interpretations and other relevant provisions issued or revised subsequently by the MoF.

The Underlying Financial Statements are prepared by the Directors for the purpose of the Circular, based on the management accounts and accounting policies set out in Note 4 which conform with the IFRSs issued by the IASB. The basis of accounting under IFRSs differs in certain respects from that used in the preparation of the Target Company's management accounts. In preparing the Underlying Financial Statements, appropriate adjustments to conform to IFRSs, which are not taken up in the management accounts of the Target Company, have been made to the Underlying Financial Statements. The auditor of the Underlying Financial Statements as defined on Page IIB-4-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the Administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

In preparing the financial statements as at June 30, 2020, the Directors have considered the net current liabilities position of the Target Company of RMB1,364,664,000, including RMB1,718,052,000 relating to outstanding adjudicated indebtedness, as disclosed in Note 24. As at September 27, 2020, the outstanding adjudicated indebtedness of RMB1,715,052,000 were discharged and waived as appropriate, based on the payment ratio stipulated in the Plan and the Court's affirmation on the Plan's completion. Considering the discharge of the indebtedness, the Directors are of the opinion that the Target Company has sufficient financial resources to meet its working capital requirements and liabilities as and when they fall due for the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing and presenting the financial statements for the Reporting Periods, the Target Company has consistently applied IFRSs, which are effective for the accounting period beginning on January 1, 2020 throughout the Reporting Periods, except that the Target Company applied IFRS 9 "Financial Instruments" and IFRS 16 "Leases" from January 1, 2018 and January 1, 2019, respectively.

IFRS 9 Financial Instruments

The accounting policies for financial instruments which conform with IFRS 9 that are applicable from January 1, 2018 onwards and IAS 39 "Financial Instruments: Recognition and Measurement" which are applicable for the year ended December 31, 2017, are set out in Note 4 below.

The Target Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

Except for the reclassification of trade and bill receivables, the initial application of IFRS 9 has had no material impact on the classification and measurement of the Target Company's financial instruments as at January 1, 2018.

IFRS 16 Leases

The Target Company has applied IFRS 16 for the first time for the accounting period beginning on January 1, 2019. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

Definition of a lease

The Target Company has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Company has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Target Company applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Target Company has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Target Company applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts: elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application or leases with low value.

The carrying amount of right-of-use assets for own use as at January 1, 2019 comprises the following:

		Right-of-use assets
		RMB'000
Reclassified from prepaid lease payment	(a)	75,711
By class:		
Leasehold land and land use rights		75,711

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, prepaid lease payments amounting to RMB75,711,000 were reclassified to right-of-use assets.

New and revised IFRSs in issue but not yet effective

The Target Company has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[3]

1 Effective for annual periods beginning on or after January 1, 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2022
4 Effective for annual periods beginning on or after June 1, 2020
5 Effective for annual periods beginning on or after January 1, 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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 Company 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 financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases" or IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

The Target Company recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the products or services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;
- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or
- the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or services.

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

A point in time revenue recognition

The revenue of the Target Company is recognized at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from sales of goods to the Target Company's customers in connection with the production of coke and coking chemicals are recognized when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

Leasing

The Target Company as lessee (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease.

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 3)

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.

For contracts entered into or modified on or after the date of initial application, the Target Company assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3)

Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Target Company.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Target Company is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Company presents right-of-use assets that do not meet the definition of investment property as a separate line item on the statement of financial position.

The Target Company as a lessor (upon application of IFRS 16 in accordance with transitions in note 3)

Classification and measurement of leases

Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Leases for which the Target Company is a lessor are classified as operating leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Target Company's ordinary course of business are presented as revenue.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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.

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

Retirement benefit scheme contribution

Payable to retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognized as expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages, salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from (loss) profit before taxation as reported in the statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

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 in which the liability is settled or the asset is realized, based on tax rates (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 Company expects, at the end of each reporting period, to recover or settle the carrying amounts 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 by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income ("OCI") or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Target Company considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purpose (other than properties under construction as described below), are stated in the 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 of goods or services, or for administrative purpose are carried at cost, less any recognized 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 and, for qualifying assets, borrowing costs capitalized in accordance with the Target Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Target Company makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" (before application of IFRS 16) or "right-of-use assets" (after application of IFRS 16) in the statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the costs (other than properties under construction) less their residual values over their 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.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the profit or loss in the period which the item is derecognized.

Investment in a subsidiary

A subsidiary is a company which is controlled by the Target Company. Control is achieved when the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returned from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Investment in a subsidiary is stated in the statements of financial position of the Target Company at cost less any identified impairment loss that has been recognized in profit or loss.

Impairment on property, plant and equipment, right-of-use assets and investment in a subsidiary

At the end of each reporting period, the Target Company reviews the carrying amounts of its property, plant and equipment, right-of-use assets and investment in a subsidiary to determine whether there is any indication that those 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 and right-of-use assets and investment in a subsidiary are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 (or the CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the CGU. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the CGU. An impairment loss is recognized immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using weighted average cost formula. Net realizable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments (before the adoption of IFRS 9 as at January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

Financial assets

The Target Company's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized and derecognized on the trade date, i.e., the date that the Target Company commits to purchase or sell the asset.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, trade and bills receivables, amounts due from related parties and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any identified impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from related parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance accounts are recognized in profit or loss. When a trade and other receivables and an amounts due from related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortized cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Target Company 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 instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities (including trade and other payables, amounts due to related parties and bank and other loans) are subsequently measured at amortized cost, using the effective interest method.

Derecognition

The Target Company derecognizes a financial asset only when the rights to receive cash flows from the assets expire or, when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial instruments (under IFRS 9 on or after January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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 IFRS 15. 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 amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the reporting 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 or 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 amortized cost:

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

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

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

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

Receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, are recognized in profit or loss. All other changes in the carrying amount of these receivables are recognized in OCI and accumulated in the equity. Impairment allowance are recognized in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these receivables had been measured at amortized cost. When these receivables are derecognized, the cumulative gains or losses previously recognized in OCI are reclassified to profit or loss.

Impairment under ECL model

The Target Company recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including other receivables, trade and bills receivables, amounts due from related parties, restricted bank balance, deposits in Administrator account, cash and cash equivalents) and financial guarantee contracts. The amount of ECL is updated at the end of each reporting period 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, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of each reporting period. Assessments are done based on the Target Company'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 end of each reporting period as well as the forecast of future conditions.

The Target Company always recognizes lifetime ECL for trade receivables and amounts due from related parties arising from contracts with customers. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except that significant balances are assessed individually.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood of risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

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

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

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

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

For financial guarantee contracts, the date that the Target Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purpose of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Target Company considers the changes in the risk that the specified debtor will default on the contract.

Definition of default

For internal credit risk management, the Target Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay all amounts due in accordance with the contractual terms.

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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 following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

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 adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Target Company 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 expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Target Company expects to receive from the holder, the debtors or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Target Company applies 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.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

Except for trade and bill receivables measured at FVTOCI and financial guarantee contract, the Target Company recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of other receivables and amounts due from related parties where the corresponding adjustment is recognized through a loss allowance account. For trade and bill receivables measured at FVTOCI, the loss allowance is recognized in OCI and accumulated in the equity without reducing the carrying amounts of these debt receivables. For financial guarantee contracts, the loss allowances are recognized at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognized less, where appropriate, cumulative amount of income recognized over the guarantee period.

Derecognition of financial assets

The Target Company derecognizes a financial asset only when the rights to receive cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities at amortized cost, including trade and other payable, amounts due to related parties, and the restructuring debts are initially measured at fair value, net of transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized 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 payment when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at fair value. It is subsequently measured at the higher of:

- the amount of loss allowance determined in accordance with IFRS 9; and
- the amount initially recognized less, when appropriate, cumulative amortization recognized over the guarantee period.

Derecognition/modification of financial liabilities

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Target Company accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Target Company) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Target Company considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities is calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Target Company currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, which are described in Note 4, the Directors are required to make 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates 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 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 are as follows:

Key sources of estimation uncertainty

Useful life and impairment of property, plant and equipment

In determining whether an asset is impaired, the management requires an estimation of recoverable amount of an individual asset or the CGUs to which the asset belongs, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the assets, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset's value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the CGUs to which the assets belongs.

Changing the assumptions selected by management to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses as at December 31, 2017, 2018 and 2019 and June 30, 2020 were RMB1,663,532,000, RMB1,535,683,000, RMB1,383,457,000 and RMB1,377,735,000, respectively.

Estimated impairment of doubtful receivables

The Target Company recognizes lifetime ECL since January 1, 2018 for trade receivables assessing individually for debtors with significant or credit-impaired balances or collectively using a provision matrix by appropriate groupings. In addition, the Target Company recognizes lifetime ECL for other receivables when there has been a significant increase in credit risk since initial recognition. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. Further details are included in Note 31.

Taxation

Determining tax provisions involves judgement on the future tax treatments of certain transactions. The Target Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account of all changes in tax legislations.

Due to the change of management team and the restructuring proposal for the Target Company in the past few years as set out in Note 1, the Directors have exercised judgement in estimating the outcome of the tax exposure. Should the tax losses and/or relevant allowance be approved by the local tax authorities, it would have a corresponding adjustments on other gains and losses, income tax payable as set out in Note 14.

6. REVENUE AND SEGMENT INFORMATION

During the Reporting Periods, the Target Company's revenue represents the amount received and receivable from the sales of goods to external customers arising from the sales of coke and coking chemicals. The revenue is recognized at a point in time when the customers obtain control of the goods delivered. Rental income of property, plant and equipment from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

All sales from contracts with customers are for period of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods delivered. Specifically, the Target Company's reportable segments under IFRS 8 are as follows:

- Coke and coking chemicals and rental segment: the production and sale of coke and a series of coking chemicals from externally sourced coking coals processed at the Target Company's coking facilities and the leasing of its property, plant and equipment to the Hongye Chemical Enterprises.

- The Target Company currently operates in one business segment. A single management team reports to the CODM who comprehensively manage the entire business. For the period from December 31, 2017 to June 30, 2020, there was only one business carried out by the Target Company and all of the Target Company's assets are derived and located in the PRC. Therefore, the Directors concluded that the Target Company is operated in a single reportable segment and no further analysis for segment information is presented.

The following is an analysis of the Target Company's revenue:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income	–	–	–	–	2,328
Revenue from contract with customers coke and coking chemicals	1,855,135	2,007,642	2,475,892	1,045,931	1,257,944
	1,855,135	2,007,642	2,475,892	1,045,931	1,260,272

7. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	12,700	16	31	8	300

8. OTHER EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss on bankruptcy restructuring *(note a)*	–	–	803,816	–	–
Loss on bankruptcy claims *(note b)*	35,674	87,143	79,768	–	–
Others	1,669	620	94	–	1,273
	37,343	87,763	883,678	–	1,273

Notes:

a. The debt of the Hongye Group Companies determined by the Court allocated to the Target Company by reference to the proportion of the capital contribution to the Hongye Group Companies on a pro-rata basis, in excess of the Target Company's own debt originally recorded.

b. Penalty interest and fine related to overdue debt and the payment for financial guarantee given by the Target Company.

9. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Gain on disposal of:					
– property, plant and equipment	–	–	19	–	–
Debts waived *(note a)*	–	–	8,370	–	–
Impairment of property, plant and equipment *(Note 15)*	–	–	(58,447)	–	–
Others	1,564	14,827	1,849	1,393	89
	1,564	14,827	(48,209)	1,393	89

Note:

a. On June 30, 2020, the Hongye Chemical Enterprises and the Hongye Group Companies other than the Hongye Chemical Enterprises (the "Other Hongye Companies") entered into a waiver agreement to reiterate the waiver of the net balance as at December 31, 2019. Debt waived represents the waiver of the net amounts owing to the Other Hongye Companies.

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net impairment losses recognized in respect of:					
Trade and other receivables *(Note 20)*	74,041	15,377	13,819	–	4,491

11. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank loans	148,409	47,567	–	–	–
Interest on other loans	8,110	–	–	–	–
	156,519	47,567	–	–	–

All interest charges have been suspended effective from September 28, 2018 onwards. Please refer to the Plan as set out in Note 1 for details.

12. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation is arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Staff costs					
Salaries, wages and other benefits	51,480	68,393	60,478	27,867	33,333
Contributions to retirement benefits scheme	2,974	21,262	5,995	2,893	2,745
	54,454	89,655	66,473	30,760	36,078
Less: Capitalized in inventories	(36,404)	(71,795)	(45,704)	(18,392)	(30,439)
	18,050	17,860	20,769	12,368	5,639
Other items					
Depreciation of property, plant and equipment	140,262	144,101	146,102	74,282	71,941
Amortization of prepaid lease payment	1,909	1,879	–	–	–
Depreciation of right-of-use assets	–	–	1,835	919	1,018
Total depreciation and amortization	142,171	145,980	147,937	75,201	72,959
Less: Capitalized in inventories	(122,160)	(130,417)	(142,468)	(72,955)	(70,855)
	20,011	15,563	5,469	2,246	2,104
Cost of inventories recognized as an expense	1,816,664	1,828,860	2,391,865	1,008,979	1,173,232

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

During the Reporting Periods, no emolument was paid to the Directors, which include Du Jiang, Yu Qingming and Qiao Wanfu who resigned on September 20, 2019, and Liu Yi, Yang Fuli, Shi Feng who were appointed on September 20, 2019.

Five highest paid individuals

The five highest paid individuals of the Target Company during the Reporting Periods included no director, whose emoluments are disclosed above. The emoluments in respect of the highest paid individuals during the Reporting Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, wages and other benefits	1,504	1,635	2,949	1,371	1,091
Contributions to retirement benefits scheme	29	20	35	20	3
	1,533	1,655	2,984	1,391	1,094

The remunerations of the five highest paid employees are within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Nil to HK$1,000,000	5	5	5	5	5

During the Reporting Periods, no amount was paid or payable by the Target Company to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office.

14. TAXATION

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax					
PRC income tax for the year/period	–	–	–	–	10,637

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for the Target Company is 25% for the Reporting Periods.

Taxation for the year/period can be reconciled to the (loss) profit before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss) profit before taxation	(374,541)	(77,146)	(1,055,283)	(32,572)	39,972
Tax at the PRC tax rate of 25%	(93,635)	(19,287)	(263,821)	(8,143)	9,993
Tax effect on:					
Non-deductible expenses	10,952	24,109	26,576	4,697	51
Unused tax losses and temporary differences not recognized	82,683	–	237,245	3,446	593
Utilisation of tax losses previously not recognized	–	(4,822)	–	–	–
Taxation for the year/period	–	–	–	–	10,637

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the Target Company has deductible temporary differences of approximately RMB74,041,000, RMB89,418,000, RMB103,237,000, and RMB107,728,000, respectively, which are mainly arising from impairment of trade and other receivables of the Target Company. No deferred tax asset has been recognized in relation to such temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilized.

The Directors resubmitted the tax filing to the relevant tax authorities for the past few years, however the tax losses and relevant allowance cannot be ascertained up to the report date.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *RMB'000*	Machinery and equipment *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost					
At January 1, 2017	646,594	1,680,481	21,830	20,145	2,369,050
Additions	8,514	23,338	1,604	–	33,456
At December 31, 2017	655,108	1,703,819	23,434	20,145	2,402,506
Additions	–	15,521	731	–	16,252
At December 31, 2018	655,108	1,719,340	24,165	20,145	2,418,758
Additions	–	46,236	4,578	1,575	52,389
Transfer from construction in progress	–	20,145	–	(20,145)	–
Disposals	–	(317)	–	–	(317)
At December 31, 2019	655,108	1,785,404	28,743	1,575	2,470,830
Additions	–	–	526	65,693	66,219
At June 30, 2020	655,108	1,785,404	29,269	67,268	2,537,049
Depreciation and impairment					
At January 1, 2017	129,497	452,222	16,993	–	598,712
Depreciation	31,614	108,021	627	–	140,262
At December 31, 2017	161,111	560,243	17,620	–	738,974
Depreciation	31,715	111,681	705	–	144,101
At December 31, 2018	192,826	671,924	18,325	–	883,075
Depreciation	31,715	113,387	1,000	–	146,102
Impairment	9,545	46,854	2,048	–	58,447
Disposals	–	(251)	–	–	(251)
At December 31, 2019	234,086	831,914	21,373	–	1,087,373
Depreciation	15,629	55,520	792	–	71,941
At June 30, 2020	249,715	887,434	22,165	–	1,159,314
Carrying amounts					
At December 31, 2017	493,997	1,143,576	5,814	20,145	1,663,532
At December 31, 2018	462,282	1,047,416	5,840	20,145	1,535,683
At December 31, 2019	421,022	953,490	7,370	1,575	1,383,457
At June 30, 2020	405,393	897,970	7,104	67,268	1,377,735

The above items of property, plant and equipment, other than construction in progress, after taking into account their estimated residuals, are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Machinery and equipment	5–30 years
Office equipment	2–15 years

Details of the pledged property, plant and equipment are set out in Note 33.

All leasehold land and buildings are located in the PRC.

16. RIGHT-OF-USE ASSETS

	Leasehold lands
	RMB'000
Carrying amount as at January 1, 2019	75,711
Depreciation charge	(1,835)
As at December 31, 2019	73,876
Additions	11,507
Depreciation charge	(1,018)
As at June 30, 2020	84,365

17. PREPAID LEASE PAYMENTS

Movements in the prepaid lease payments, which represent land use rights in the PRC, during the Reporting Periods are analyzed as follows:

	Year ended December 31,	
	2017	**2018**
	RMB'000	*RMB'000*
At the beginning of the reporting period	79,499	77,590
Released to profit or loss	(1,909)	(1,879)
At the end of the reporting period	77,590	75,711
Analyzed for reporting purpose as:		
Non-current assets	75,711	73,873
Current assets	1,879	1,838

18. INVESTMENT IN A SUBSIDIARY

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of investments, unlisted	64,000	64,000	–	–
Less: impairment	(64,000)	(64,000)	–	–
	–	–	–	–

Details of the Target Company's subsidiary at the end of each Reporting Periods are as follows:

Company name	Place of establishment/ incorporation	Place of operation	As at December 31, 2017	2018
山東洪都物流有限公司 (Shandong Hongdu Logistics Co., Ltd) *(note a)*	PRC	Shandong, PRC	–	–

Note a: the subsidiary has been tax de-registered in 2014 without business operation since then, and a full impairment was made accordingly. The subsidiary has been industrial and commercial and de-registration on December 20, 2019.

The Directors did not prepare the consolidated financial statements in accordance with IFRS 10 "Consolidated Financial Statements", as the Directors of the Target Company consider that this is inconsistent with the Plan, and would involve expenses and delay out of proportion to the value to the stakeholder of the Company.

19. INVENTORIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	40,596	108,001	106,743	96,289
Finished goods	4,889	80,066	156,588	104,482
	45,485	188,067	263,331	200,771

20. OTHER RECEIVABLES/TRADE AND BILLS RECEIVABLES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	170,083	–	–	–
Bills receivables	3,490	–	–	–
Trade receivables measured at FVTOCI	–	109,953	118,257	224,013
Bills receivables measured at FVTOCI	–	10,750	71,270	13,319
Less: impairment	(8,145)	–	–	–
	165,428	120,703	189,527	237,332
Prepayments for raw materials	92,163	188,043	33,386	17,477
Other deposits, prepayments and other receivables	97,682	115,294	83,946	91,772
Deductible input Value Added Tax and prepaid other taxes and charges	77,941	2,281	9,113	–
Less: impairment	(65,896)	(77,474)	(78,057)	(78,214)
	201,890	228,144	48,388	31,035

Aging of trade receivables net of allowance for bad debts based on invoice dates, which approximated the respective revenue recognition dates, are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	157,111	102,162	97,785	155,690
1 to 3 months	–	2,077	583	35,878
3 to 6 months	–	–	19,889	24,584
6 to 12 months	4,374	5,714	–	7,861
1–2 years	–	–	–	–
More than 3 years	453	–	–	–
	161,938	109,953	118,257	224,013

Bills receivable are bank acceptance notes and the average aging based on the maturity date is from 90 days to 360 days. The management believes that no further impairment allowance is necessary as there is no significant change in credit quality and the balances are still considered fully recoverable.

The table below is analysis of trade receivables as at December 31, 2017 under IAS 39:

	As at December 31, 2017
	RMB'000
Not past due and not impaired	–
Past due but not impaired	161,938
Total trade receivables	161,938

Starting from January 1, 2018, the Target Company applied the ECL model prescribed by IFRS 9, and the impairment methodology of ECL model is set out in Note 31.

The movements in the allowance for doubtful debts are as follows:

	Year ended December 31,			**Six months ended June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	–	74,041	89,418	103,237
Impairment losses recognized on receivables	74,041	15,377	13,819	4,491
At the end of the reporting period	74,041	89,418	103,237	107,728

The following bills receivable as at December 31, 2017, 2018 and 2019 and June 30, 2020 were transferred to suppliers by endorsing on a full recourse basis. As the Target Company has not transferred the substantially all the risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the receivables and the corresponding liabilities included in trade payables.

	As at December 31,			**As at June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of associated payables to suppliers *(Note 25)*	3,490	10,750	64,270	10,920

During the Reporting Periods, the Target Company has transferred the substantially all the risks and rewards relating to certain bills receivable endorsed to suppliers even if the suppliers endorsed have the right of recourse. The Target Company's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed bills receivable is remote because all endorsed bills receivable are issued and guaranteed by the PRC reputable banks. As a result, the relevant assets and liabilities were derecognized. The maximum exposure to the Target Company that may result from the default of these endorsed bills receivable at the end of each reporting period are as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Endorsed bills for settlement of payables to suppliers	1,640	47,778	145,549	109,214
Outstanding endorsed bills receivable with recourse	1,640	47,778	145,549	109,214

The outstanding endorsed bills receivable are matured within 12 months.

21. RESTRICTED BANK BALANCES

The carrying amounts of the Target Company's restricted bank balances placed to secure various liabilities of the Target Company are as follow:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Restricted deposits for bills	270	270	271	272
Analysed as:				
Current assets	270	270	271	272

Restricted bank balances are deposited with banks in the PRC. The deposits carry interest at market rates 1.75% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively.

22. CASH AND CASH EQUIVALENTS

Bank balances carried interest at market interest rate ranging from 0.3% to 0.35% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Bank balances and cash as at December 31, 2017, 2018 and 2019 and June 30, 2020 were denominated in RMB.

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	10,077	6,626	10,799	5,144

23. BANK AND OTHER LOANS

The analysis of the carrying amount of bank and other loans is as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– Secured	1,010,217	–	–	–
Other loans				
– Secured	564,938	–	–	–
	1,575,155	–	–	–

At the end of each reporting period, the bank and other loans were payable as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,575,155	–	–	–
Analyzed for reporting purpose as:				
Current liabilities	1,575,155	–	–	–

The bank and other loans carry interest at the rates ranging from 4.35% to 7.80% per annum.

In 2017, the Target Company breached the covenants in a loan agreement, which are primarily related to the debt-equity ratio of the Target Company. The carrying amounts of bank and other loans that are repayable on demand due to breach of loan covenants were shown under current liabilities.

According to the judgment made by the Court on September 28, 2018, all bank and other loans were reclassified to restructuring debt as set out in Note 24.

24. RESTRUCTURING DEBTS

	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*
Taxes payable *(note a)*			
– trade and other payables	6,810	6,810	–
Salaries payable *(note a)*			
– trade and other payables	51,389	13,052	2,815
Secured and unsecured debts confirmed by the Administrators *(notes b and c)*			
– trade and other payables	907,948	662,611	611,155
– bank and other loans *(Note 23)*	1,511,508	1,036,778	987,421
	2,419,456	1,699,389	1,598,576
Unconfirmed debts by the Administrators *(note d)*			
– trade and other payables	55,596	55,596	55,596
– bank and other loans *(Note 23)*	61,065	61,065	61,065
	116,661	116,661	116,661
Other liabilities *(note e)*	–	101,302	–
	2,594,316	1,937,214	1,718,052

Restructuring debts represent indebtedness entering into adjudication process effective from September 28, 2018 and the debts affirmed by the Court on July 31, 2019 after due adjudication by the Administrators.

According to the Plan disclosed in Note 1, the adjudicated indebtedness below are to be settled based on the payment sequence and ratio stipulated in the Plan, using the funds injected by Shunri Xinze, with the balance to be discharged upon the completion of such payment and the Court's affirmation of such completion. The relevant indebtedness includes:

(a) the taxes payable and salaries payable which will be paid in full;

(b) secured debts, if any, will be paid at a percentage of the realized value of the pledged assets and the unpaid portion will be fulfilled together with other unsecured debts;

(c) unsecured debts less than RMB200,000 which will be paid in full and unsecured debts more than RMB200,000 which will be paid at ratio of 11.13% according to the Plan;

(d) unconfirmed debts, which consist of debts pending for endorsement by creditors and the Court as well as potential creditor claims yet to be received, will be paid in accordance with the Plan for the similar indebtedness; and

(e) other liabilities, including bankruptcy fees and debts from the Other Hongye Companies allocated to the Target Company.

The total estimated indebtedness, including the amount guaranteed by the Target Company, affirmed by the Court is approximately RMB2,670,393,000 as at September 28, 2018. As disclosed in Note 35, the Court affirmed on September 27, 2020 the completion of the Plan including the payment made by Shunri Xinze in September 2019, out of which the Administrators paid the debts claimants in accordance with the Plan. The resulting gain of RMB1,654,210,000, being the balance of the indebtedness waived and discharged in line with the Plan, are considered by the Directors as an non-adjusting subsequent event. As of the date of September 27, 2020, the balance of fund in Administrator account amounted to RMB93,173,000.

25. TRADE AND OTHER PAYABLES

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	617,993	258,010	158,625	308,308
Payables to be settled by the endorsed bills receivable *(Note 20)*	3,490	10,750	64,270	10,920
Payables for construction in progress	10,937	57	331	238
Other payables and accruals	477,752	23,474	36,192	22,469
	1,110,172	292,291	259,418	341,935

Trade and other payables are generally expected to be settled within one year.

The following is an aging analysis of trade payables based on the invoice date at the end of each reporting period:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	222,533	258,010	79,420	3,980
3 to 6 months	162,001	–	59,888	164,570
7 to 12 months	165,672	–	3,497	130,150
1 to 2 years	42,405	–	15,820	9,608
2 to 3 years	16,422	–	–	–
More than 3 years	8,960	–	–	–
	617,993	258,010	158,625	308,308

According to the judgment made by the Court on September 28, 2018, the carrying value of trade and other payables as at September 28, 2018 were reclassified to restructuring debt as set out in Note 24.

26. SHARE CAPITAL

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Presented in the statements of financial position as:	371,000	371,000	371,000	371,000

27. RESERVES

Capital reserve

In 2018, the changes of capital reserve represent:

a. the capital contribution amounting to RMB2,844,767,000 from Hongye Chemical in accordance with an agreement with Hongye Chemical dated July 5, 2018;

b. the net amount owing to the Target Company of RMB995,232,000 waived according to the waiver agreements within the Hongye Group Companies which was accounted for as a deemed capital reduction and recognized in capital reserve.

In 2019, the addition of capital reserve represents capital injection amounting to RMB1,820,000,000 from Shunri Xinze as set out in Note 1 and 24.

Reserve fund

The Articles of Association of the Target Company require the appropriation of 10% of their profit after tax, based on their statutory audited financial statements, to the reserve fund each year until the balance reaches 50% of the registered capital of the Target Company. The reserve fund may be capitalized as the paid-in capital.

Safety fund

Pursuant to relevant PRC regulation, the Target Company is required to transfer from 0.2% to 4% of revenue generated from sales of coke and coking chemicals for the periods. The Target Company is required to make a transfer for the provision of safety fund from retained profits to a specific reserve. The safety fund could be utilized when expenses or capital expenditures on safety operation or measures are incurred. The amount of safety fund utilized would be transferred from the specific reserve back to retained profits.

28. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the Target Company participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities whereby the Target Company is required to make contributions to the Schemes based on applicable rates. The municipal government authorities are responsible for the entire pension obligations payable to retired employees.

The Target Company has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

29. RELATED PARTY TRANSACTIONS AND BALANCES

Prior to September 20, 2019, the following entities were considered as the related companies of the Target Company:

Name of related party	**Relationship with the Target Company**
洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd)	Ultimate holding company in Other Hongye Companies
山東洪業如松化工設備安裝有限公司 (Shandong Hongye Rusong Chemical Equipment Installation Co., Ltd)	*note b*
山東吉昌化工有限責任公司 (Shandong Jichang Chemical Co., Ltd)	*note b*
菏澤開發區洪源小額貸款有限公司 (Heze Development Zone Hongyuan Small Loan Co., Ltd)	*note b*
菏澤市洪源供水有限公司 (Heze Hongyuan Water Supply Co., Ltd)	*note b*
菏澤洪方商貿有限公司 (Heze Hongfang Trading Co., Ltd)	*note b*
上海洪魯國際貿易有限公司 (Shanghai Honglu International Trade Co., Ltd)	*note b*
上海多凱國際貿易有限公司 (Shanghai Duokai International Trade Co., Ltd)	*note b*
上海洪魯化工技術有限公司 (Shanghai Honglu Chemical Technology Co., Ltd)	*note b*
山東天秀化工貿易有限公司 (Shandong Tianxiu Chemical Trade Co., Ltd)	*note b*
山東吉安化工有限公司 (Shandong Ji'an Chemical Co., Ltd)	*note b*
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明藥業集團股份有限公司 (Shandong Fangming Pharmaceutical Group Co., Ltd)	*note c*
菏澤市方明製藥有限公司 (Heze Fangming Pharmaceutical Co., Ltd)	*note c*
上海眾諾國際貿易有限公司 (Shanghai Zhongnuo International Trade Co., Ltd)	*note c*
山東方明邦嘉製藥有限公司 (Shandong Fangming Bangjia Pharmaceutical Co., Ltd)	*note c*
東明縣洪方化工科技服務有限公司 (Dongming Hongfang Chemical Technology Service Co., Ltd)	*note c*
菏澤堯舜牡丹生物科技有限公司 (Heze Yaoshun Peony Biotechnology Co., Ltd)	*note c*
菏澤堯舜酒店管理有限公司 (Heze Yaoshun Hotel Management Co., Ltd)	*note c*

Name of related party	Relationship with the Target Company
菏澤市中小企業融資擔保有限公司 (Heze SME Financing Guarantee Co., Ltd)	*note c*
山東洪方精細化工有限公司 (Shandong Hongfang Fine Chemical Co., Ltd)	*note c*
山東東藥藥業股份有限公司 (Shandong Dongyao Pharmaceutical Co., Ltd)	*note c*
菏澤萊佛生物科技有限公司 (Heze Laifo Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
菏澤百奧靈生物科技有限公司 (Heze Baiaoling Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
山東洪豐麵粉有限公司 (Shandong Hongfeng Flour Co., Ltd)	*note c*
開封天池化工有限公司 (Kaifeng Tianchi Chemical Co., Ltd)	*note c*

Note a: According to the Plan set out in Note 1, certain entities ceased to be a related Company of the Target Company from September 20, 2019 onwards.

Note b: Fellow subsidiary in the Other Hongye Companies.

Note c: Entity controlled by the then ultimate beneficial owner in the Other Hongye Companies.

Note d: According to the Plan, the related party balances as at September 28, 2018 were waived within the Hongye Group Companies.

Subsequent to September 20, 2019, the following entities were considered as the related companies of the Target Company.

Name of related party	Relationship with the Target Company
中國信達資產管理股份有限公司 (China Cinda)	Ultimate holding company
蕪湖順日信澤股權投資合夥企業 (有限合夥) (Shunri Xinze)	Immediate holding company
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

Other than the transactions disclosed in Note 1, 24 and 27 in the Historical Financial Information, the Target Company entered into the following material related party transactions:

(a) Transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchases of goods from					
– Fellow subsidiaries	61,372	2,504	3,075	1,529	1,791
– Other Hongye Companies	875,141	53,801	139	103	–
Sales of goods to					
– Fellow subsidiaries	194,810	291,986	334,791	149,078	129,581
– Other Hongye Companies	583,830	–	–	–	–
Administrative fee to					
– Other Hongye Companies	9,082	21,558	24,417	10,641	–
Rental revenue					
– Fellow subsidiaries	–	–	–	–	2,328
Rental expenses					
– Fellow subsidiaries	–	–	–	–	1,059

The above related party transactions were conducted in accordance with terms of the relevant agreements.

(b) Balances with related parties

At the end of each reporting period, the Target Company had the following balances with related parties:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
Non-trade nature				
– Fellow subsidiaries	–	1,264	–	–
– Other Hongye Companies	6,850	–	–	–
	6,850	1,264	–	–
Trade nature				
– Fellow subsidiaries	153,098	89,319	139,109	209,203
– Other Hongye Companies	188,755	–	–	–
	341,853	89,319	139,109	209,203
Analyzed for reporting purposes as:				
Current portion	348,703	90,583	139,109	209,203

Aging of amounts due from related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	48,639	57,756	10,309	–
1 to 3 months	14,383	31,563	25,405	20,382
4 to 6 months	26,300	–	39,799	12,063
7 to 12 months	248,807	–	63,596	75,513
1 to 2 years	–	–	–	101,245
2 to 3 years	–	–	–	–
Above 3 years	3,724	–	–	–
	341,853	89,319	139,109	209,203

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to related parties				
Non-trade nature				
– Fellow subsidiaries	29,007	28,992	137,826	70,860
– Other Hongye Companies	1,576,229	–	–	–
	1,605,236	28,992	137,826	70,860
Trade nature				
– Fellow subsidiaries	1,775	–	–	–
– Other Hongye Companies	666,738	–	–	–
	668,513	–	–	–
Analyzed for reporting purposes as:				
Current portion	2,273,749	28,992	137,826	70,860

Aging of amounts due to related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	8,017	–	–	–
1 to 3 months	–	–	–	–
3 to 6 months	1,773	–	–	–
6 to 12 months	24,122	–	–	–
1 to 2 years	217,866	–	–	–
2 to 3 years	416,735	–	–	–
	668,513	–	–	–

30. CAPITAL MANAGEMENT

The Target Company's primary objectives of managing capital are to safeguard the Target Company's ability to continue as a going concern, and to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions.

Based on recommendations of the board of directors, the Target Company will balance its overall capital structure through adjusting the amount of dividends paid to shareholders, issues of new shares, raise new debt financing or selling assets to reduce debt. During the Reporting Periods, the objectives, policies or processes were changed from July 31, 2019 onwards, upon the engagement of the Risun Chemicals as the operation agent as per agreement.

The Target Company monitors capital with reference to its debt position. The Target Company's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligation.

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of each reporting period are set out as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Target Company				
Financial assets				
Loans and receivables (including cash and cash equivalents)	556,264	–	–	–
Trade and bills receivables measured at FVTOCI	–	120,703	189,527	237,332
Financial assets at amortized cost	–	135,299	473,277	324,350
Financial liabilities				
Financial liabilities at amortized cost	4,879,654	2,852,362	2,307,055	2,111,005

Financial risk management objectives and policies

The Target Company's major financial instruments include trade and bills receivables measured at amortized cost, trade and bills receivables measured at FVTOCI, other receivables, amounts due from related parties, deposit in Administrator account, restricted bank balances, cash and cash equivalents, trade and other payables, restructuring debts, amounts due to related parties, and bank and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. From July 31, 2019 onwards, the management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

For the year ended December 31, 2019 and the period ended June 30, 2020, the Director(s) consider that the interest rate risk of the Target Company is limited as the finance charges has been suspended. Please refer to the Plan as set out in Note 1 for details.

Due to incomplete record, change of management team and the Plan as set out in Note 1, in management's opinion, the disclosure of interest rate risk for the years ended December 31, 2017 and 2018 are unrepresentative as these year-end exposure does not reflect the exposure of the Target Company during the relevant years. Thus, no disclosure were prepared.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Company's counterparties default on their contractual obligations resulting in financial losses to the Target Company. The Target Company's credit risk exposures are primarily attributable to trade and bills receivables, other receivables, restricted bank balances cash and cash equivalents, amounts due from related parties and deposit in Administrator account. The Target Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

At the end of each reporting period, other than financial assets whose carrying amounts best represent the maximum credit risk, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the amount of contingent liabilities disclosed in Note 34.

In order to minimize the credit risk, the Target Company mainly conducted transactions with customers with good quality, when accepting new customers, the Target Company requests advanced payment before the goods delivered.

The Target Company only accepts bills issued or guaranteed by reputable PRC banks if trade receivables are settled by bills and therefore the management of the Target Company considers the credit risk arising from the endorsed bills is insignificant. In this regard, the Directors of the Target Company consider that the Target Company's credit risk is significantly reduced.

To manage risk arising from bank balances and bills receivables, the Target Company mainly transacts with state-owned or reputable financial institutions in PRC. There has been no recent history of default in relation to these financial institutions. Therefore the management of the Target Company considers the credit risk arising from restricted bank balances and bank acceptance bills is insignificant.

The Target Company does not have any significant concentration of credit risk, as at December 31, 2017 and 2018, with exposure spread over a large number of counterparties and customers. As at December 31, 2019 and June 30, 2020, the Target Company has concentration of credit risk as 68.65% and 85.78% of trade receivables were due from Risun Chemicals and its subsidiaries.

For trade receivables and amounts due from related parties of trade nature, the Target Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The ECL on these assets are assessed individually for debtors with significant or credit-impaired balances or collectively using a provision matrix by appropriate groupings. As part of the Target Company's credit risk management, the Target Company uses debtors' aging to assess the impairment for its customers because its customers share common risk characteristics that are representative of the customers' abilities to pay the amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted using forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

For all other instruments including, other receivables, deposit in Administrator account and amounts from related parties of non-trade nature, the Target Company measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The Target Company has assessed and concluded that the risk of default rate for these instruments are steady based on the Target Company's assessment of the financial health of the counterparties.

The tables below detail the credit risk exposures of the Target Company's trade and other receivables, deposit in Administrator account and amounts due from related parties, which are subject to ECL assessment:

	Notes	**Internal credit rating**	**12-month or lifetime ECL**	**December 31, 2018 Gross carrying amount**		**December 31, 2019 Gross carrying amount**		**June 30, 2020 Gross carrying amount**	
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortized cost									
Other receivables	20	*Note*	12-month ECL	37,643		5,712		13,558	
			Credit-impaired (individually)	77,651	115,294	78,234	83,946	78,214	91,772
Deposit in Administrator account		*Note*	12-month ECL	–	–	317,209	317,209	96,173	96,173
Amounts due from related parties	29	*Note*	12-month ECL	1,264		–		–	
			Not Credit-impaired (individually)	89,319	90,583	139,109	139,109	209,203	209,203
Financial assets at FVTOCI									
Trade receivables	20	*Note*	Not Credit-impaired (individually)	–		98,473		217,464	
			Lifetime ECL (provision matrix)	105,396		21,028		1,747	
			Credit-impaired (individually)	16,501	121,897	23,936	143,437	34,316	253,527
Bills receivable	20	*Note*	12-month ECL	10,750	10,750	71,270	71,270	13,319	13,319

Note: These balances are unsecured and with no fixed repayment terms. Set out below is the impairment provision of the financial assets.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables and amounts due from related parties of trade nature under the simplified approach:

	Lifetime ECL (not credit impaired)	**Lifetime ECL (credit impaired)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2018	–	8,145	8,145
– Impairment losses recognized	–	3,799	3,799
At December 31, 2018	–	11,944	11,944
– Impairment losses recognized	1,244	11,992	13,236
At December 31, 2019	1,244	23,936	25,180
– Impairment losses recognized	4,334	–	4,334
At June 30, 2020	5,578	23,936	29,514

The credit risk of trade receivables based on the Target Company's provision matrix were insignificant.

The trade receivables with gross carrying amounts of RMB16,501,000, RMB122,409,000 and RMB251,782,000 as at December 31, 2018, December 31, 2019 and June 30, 2020, respectively, were assessed individually, and impairment allowance of RMB11,944,000, RMB25,180,000 and RMB29,514,000 were made on these debtors.

The following table shows reconciliation of loss allowances that have been recognized for other receivables:

	12-month ECL	**Lifetime ECL (not credit impaired)**	**Lifetime ECL (credit impaired)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2018	–	–	65,896	65,896
– Impairment losses recognized	–	–	11,578	11,578
As at December 31, 2018	–	–	77,474	77,474
– Impairment losses recognized	–	–	583	583
As at December 31, 2019	–	–	78,057	78,057
– Impairment losses recognized	–	–	157	157
As at June 30, 2020	–	–	78,214	78,214

Liquidity risk

The Directors are responsible for cash management of the Target Company, including the raising of loans to cover expected cash demands. The Target Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

At the end of each reporting period, almost all remaining contractual maturities of the Target Company's financial liabilities were within one year.

Fair values

(i) Financial instruments carried at fair value

The Target Company measures its following financial instruments at fair value at the end of each reporting period on a recurring basis:

	Fair value					
	As at December 31,		**As at June 30,**	**Fair value**	**Valuation technique and**	**Significant unobservable**
	2018	**2019**	**2020**	**hierarchy**	**key input**	**input(s)**
	RMB'000	*RMB'000*	*RMB'000*			
Trade receivables and bills receivable	120,703	189,527	237,332	Level 2	Fair values are estimated based on the present value of the contracted cash inflow at the discount rate that reflects the market credit risk	N/A

(ii) Fair values of financial instruments carried at amortized cost

Except for the fair values of the restructuring debts, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information of the Target Company approximate their fair values due to short maturity or with floating interest rates. The fair value of restructuring debts amounting to RMB283,004,000 and RMB63,842,000 as at December 31, 2019 and June 30, 2020, respectively, are evaluated based on the future cash flow of restructuring debts in accordance with the Plan and the investment agreement.

32. COMMITMENTS

Capital commitments outstanding at the end of each reporting period not provided for in the Historical Financial Information were as follows:

	As at December 31,			**As at June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure in respect of				
– property, plant and equipment	–	–	207,680	146,957

33. PLEDGE OF ASSETS

At the end of each reporting period, certain assets were pledged to secure banking facilities granted to the Target Company and their carrying amounts are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	1,637,573	1,280,340	–	–
Prepaid lease payments	53,637	33,161	–	–
	1,691,210	1,313,501	–	–

According to the judgment made by the Court on July 31, 2019, all assets pledged to the financial institutions were released during the year of 2019.

34. CONTINGENT LIABILITIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees provided in respect of				
– loan facilities	676,894	676,894	–	–

Pending arbitration of the Target Company

As of the date of this report, the Target Company is undergoing an arbitration with a contractor in respect of the services provided to the Target Company prior to May 2020. The Directors is of the view, based on legal advice on the claims and the counterclaims, that no loss (including claims for costs) will be incurred. The amount payable to the contractor arising from the normal course of business which have been recognized in the statement of financial position as at June 30, 2020 and included in trade payables.

Undeclared claims of the Target Company

According to the Plan, the undeclared creditors, of which no provision was made by the Target Company will have right to request payment within two years after the completion of the Plan on September 27, 2020. The Directors believe, based on the indemnity provided by Heze Jinda, that further payment to be made by the Target Company is remote and therefore no further provision is required.

35. EVENTS AFTER REPORTING PERIODS

As disclosed in Note 24, the Court affirmed the completion of the Plan on September 27, 2020.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to June 30, 2020.

The following is the text of a report set out on pages IIB-5-1 to IIB-5-43, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF 山東洪鼎化工有限公司 (SHANDONG HONGDING CHEMICAL CO., LTD.) TO THE DIRECTORS OF CHINA RISUN GROUP LIMITED

Introduction

We are engaged to report on the historical financial information of 山東洪鼎化工有限公司 (Shandong Hongding Chemical Co., Ltd., the "Hongding Chemical", the "Target Company") set out on pages IIB-5-4 to IIB-5-43, which comprises the statements of financial position of the Target Company as at December 31, 2017, 2018 and 2019 and June 30, 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Reporting Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information of the Target Company"). The Historical Financial Information of the Target Company set out on pages IIB-5-4 to IIB-5-43 forms an integral part of this report, which has been prepared for inclusion in the circular of China Risun Group Limited (the "Company") dated December 8, 2020 (the "Circular") in connection with the proposed acquisition of the Target Company.

Responsibilities of the Directors of the Target Company and the Company

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

The directors of the Company are responsible for the content of this Circular in which the Historical Financial Information of the Target Company 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 conduct 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") and to report to you. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

We complied with ethical standards as required by this standard.

Disclaimer of Opinion on the Historical Financial Information of the Target Company

We do not express an opinion on the Historical Financial Information of the Target Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company

As set out in Note 2 to the Historical Financial Information, the Historical Financial Information of the Target Company was prepared based on incomplete accounting records. The auditor of the Underlying Financial Statements as defined on page IIB-5-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the bankruptcy administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

We were unable to carry out the procedures we considered necessary to assess the impact of the matter described on the Underlying Financial Statements to form a basis for an audit opinion on the Historical Financial Information. We were also unable to determine whether any adjustments might have been found necessary in respect of the Historical Financial Information of the Target Company.

Disclaimer of Conclusion on Stub Period Comparative Financial Information of the Target Company

We were engaged to review the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information of the Target Company"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information of the Target Company in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of the Target Company. Our responsibility is to conduct our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Because of the significance of the

matters described in the Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company section of our report, we were unable to obtain sufficient appropriate evidence to form a conclusion on the Stub Period Comparative Financial Information of the Target Company. Accordingly, we do not express a conclusion on the Stub Period Comparative Financial Information of the Target Company.

Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company

We were unable to carry out the procedures we considered necessary to assess the consequential impact of the matters described on the Underlying Financial Statements and the Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company section of our report to form a basis for a conclusion on the Stub Period Comparative Financial Information of the Target Company. We were also unable to determine whether any adjustments might have been found necessary in respect of the Stub Period Comparative Financial Information of the Target Company.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-5-4 have been made.

Dividends

No dividend was declared or paid by the Target Company in respect of the Reporting Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

December 8, 2020

HISTORICAL FINANCIAL INFORMATION OF THE HONGDING CHEMICAL

Preparation of the Historical Financial Information of the Target Company

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

The financial statements of the Target Company for the Reporting Periods, on which the Historical Financial Information of the Target Company is based, have been prepared by the directors of the Target Company (the "Directors") in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and were audited by us in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements") of which a disclaimer of opinion was issued as set out in Note 2.

The Historical Financial Information of the Target Company is presented in Renminbi ("RMB"), which is also the functional currency of the Target Company, and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended June 30,	
	Notes	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue from contracts with customers	6	359,082	160,655	1,776	1,530	1,042
Cost of sales		(374,724)	(214,373)	(1,755)	(1,509)	(1,009)
Gross (loss) profit		(15,642)	(53,718)	21	21	33
Other income	7	2	–	–	–	6
Other expense	8	(676)	(562)	(332,298)	(15,455)	(14,836)
Other gains and losses	9	10	7	(17,724)	16	2
Impairment losses, net of reversal	10	–	–	–	–	(149)
Selling and distribution expenses		(7,091)	(364)	–	–	–
Administrative expenses		(28,930)	(35,162)	(8,040)	(3,775)	(3,486)
Loss from operations		(52,327)	(89,799)	(358,041)	(19,193)	(18,430)
Finance costs	11	(27,887)	(10,734)	–	–	–
Loss before taxation	12	(80,214)	(100,533)	(358,041)	(19,193)	(18,430)
Taxation	14	–	–	–	–	–
Loss for the year/period		(80,214)	(100,533)	(358,041)	(19,193)	(18,430)
Total comprehensive expense for the year/period		(80,214)	(100,533)	(358,041)	(19,193)	(18,430)
Loss for the year/period attributable to equity holder of the Target Company		(80,214)	(100,533)	(358,041)	(19,193)	(18,430)
Total comprehensive expense for the year/period attributable to equity holder of the Target Company		(80,214)	(100,533)	(358,041)	(19,193)	(18,430)

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Notes	As at December 31, 2017	2018	2019	As at June 30, 2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	15	444,438	419,424	374,377	362,780
Current assets					
Inventories	16	5,671	5,459	5,377	4,419
Other receivables	17	44,354	18,014	15,199	16,927
Trade receivables	17	378	204	365	328
Amounts due from related parties	25(b)	299,095	28,058	11,027	8,435
Deposit in Administrator account		–	–	8,346	2,084
Cash and cash equivalents	18	6	63	1,246	701
		349,504	51,798	41,560	32,894
Current liabilities					
Trade and other payables	21	59,256	5,224	789	1,268
Contract liabilities		–	308	–	–
Restructuring debts	20	–	364,179	323,142	316,880
Bank and other loans	19	300,000	–	–	–
Amounts due to related parties	25(b)	479,038	1,464	–	3,950
		838,294	371,175	323,931	322,098
Net current liabilities		(488,790)	(319,377)	(282,371)	(289,204)
Total assets less current liabilities and net (liabilities)/assets		(44,352)	100,047	92,006	73,576
Capital and reserves					
Share capital	22	300,000	300,000	300,000	300,000
Reserves	23	(344,352)	(199,953)	(207,994)	(226,424)
Total (deficit) equity attributable to equity holder of the Target Company		(44,352)	100,047	92,006	73,576
Total (deficit) equity		(44,352)	100,047	92,006	73,576

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company			
	Share capital	Capital reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 22)	*(Note 23)*		
Balance at January 1, 2017	300,000	–	(264,138)	35,862
Loss for the year	–	–	(80,214)	(80,214)
Balance at December 31, 2017	300,000	–	(344,352)	(44,352)
Capital contribution	–	400,437	–	400,437
Deemed capital reduction	–	(155,505)	–	(155,505)
Loss for the year	–	–	(100,533)	(100,533)
Balance at December 31, 2018	300,000	244,932	(444,885)	100,047
Capital contribution	–	350,000	–	350,000
Loss for the year	–	–	(358,041)	(358,041)
Balance at December 31, 2019	300,000	594,932	(802,926)	92,006
Loss for the period	–	–	(18,430)	(18,430)
Balance at June 30, 2020	300,000	594,932	(821,356)	73,576
Balance at January 1, 2019	300,000	244,932	(444,885)	100,047
Loss for the period	–	–	(19,193)	(19,193)
Balance at June 30, 2019 (unaudited)	300,000	244,932	(464,078)	80,854

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
Loss before taxation		(80,214)	(100,533)	(358,041)	(19,193)	(18,430)
Adjustments for:						
Other income		(2)	–	–	–	(6)
Other expense		581	435	300,632	–	–
Other gains or losses, net		–	–	20,760	–	–
Finance costs		27,887	10,734	–	–	–
Impairment losses, net of reversal		–	–	–	–	149
Depreciation		14,863	13,606	26,139	13,486	12,804
Operating cash flows before movements in working capital		(36,885)	(75,758)	(10,510)	(5,707)	(5,483)
Decrease/(increase) in inventories		22,808	13,693	82	(51)	958
Decrease/(increase) in trade receivables, and other receivables		161,769	26,514	2,639	(7,516)	(1,840)
(Decrease)/increase in trade and other payables and contract liabilities		(298,795)	14,484	(5,443)	6,209	1,363
(Increase)/decrease in amounts due from related parties		(299,095)	271,037	17,031	11,805	2,592
Increase/(decrease) in amounts due to related parties		479,038	(233,077)	(1,464)	(3,556)	3,950
Net cash generated from operating activities		28,840	16,893	2,335	1,184	1,540

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Investing activities						
Interest received		2	–	–	–	6
Purchases of property, plant and equipment		(1,017)	(6,102)	(1,152)	(1,152)	(2,091)
Net cash used in investing activities		(1,015)	(6,102)	(1,152)	(1,152)	(2,085)
Financing activities						
Interest paid		(27,887)	(10,734)	–	–	–
Net cash used in financing activities		(27,887)	(10,734)	–	–	–
Net (decrease) increase in cash and cash equivalents		(62)	57	1,183	32	(545)
Cash and cash equivalents at the beginning of the year/period		68	6	63	63	1,246
Cash and cash equivalents at the end of the year/period	18	6	63	1,246	95	701

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BANKRUPTCY RESTRUCTURING

Hongding Chemical was established in the People's Republic of China (the "PRC") on December 6, 2010 with limited liability. The registered office of the Target Company is Chemical Industry Park, Yuncheng County, Heze, Shandong Province, the PRC. The Target Company is engaged in the production, sale and distribution of refined chemicals (the "Core Business").

On September 28, 2018, Heze Intermediate People's Court in China (the "Court") appointed bankruptcy administrators (the "Administrators") for 洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd, "Hongye Chemical"), the ultimate holding company of the Target Company, its subsidiaries and certain other related companies (collectively referred to as the "Hongye Group Companies").

On July 31, 2019, the Court affirmed the restructuring proposal (the "Plan"), which includes:

- the acquisition of the Hongye Group Companies including the Target Company, 山東方明化工股份有限公司 (Shandong Fangming Chemical Co., Ltd., the "Fangming Chemical"), 山東東巨化工股份有限公司 (Shandong Dongju Chemical Co., Ltd., the "Dongju Chemical"), 山東恒順供熱有限公司 (Shandong Hengshun Heat Supply Co., Ltd., the "Hengshun Heat Supply"), 山東洪達化工有限公司 (Shandong Hongda Chemical Co., Ltd., the "Hongda Chemical") and 山東勇智化工有限公司 (Shandong Yongzhi Chemical Co., Ltd., the "Yongzhi Chemical") (collectively referred to as the "Hongye Chemical Enterprises") by Heze Jinda Asset Management Company ("Heze Jinda", the sole restructuring investor); and

- a capital restructuring and debt restructuring of the Hongye Group Companies, as well as injection of funds into the Hongye Chemical Enterprises to restructure its indebtedness adjudicated by the Administrators as set out in Note 20. According to the Plan and Article 46 of the "Enterprise Bankruptcy Law" of the PRC, all adjudicated creditor claims fell due and payable and all interest charges, if applicable, have been suspended effective from the date of the Court's affirmation of the Plan.

Since July 2019, 旭陽集團有限公司 (Risun Group Limited, "Risun Chemicals", formerly known as 旭陽化工有限公司 Risun Chemicals Limited) and its subsidiary 北京旭陽宏業化工有限公司 (Beijing Risun Hongye Chemicals Company Limited), subsidiaries of the Company, were jointly engaged to manage the daily operation of the Hongye Chemical Enterprises, including keeping the accounting records, on behalf of the Administrators.

On September 16, 2019, 蕪湖順日信澤股權投資合夥企業 (有限合夥) (Wuhu Shunri Xinze Equity Investment Partnership (LP), "Shunri Xinze"), a subsidiary of the 中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd., "China Cinda"), entered into an agreement with Heze Jinda, the Administrators, and the Hongye Chemical Enterprises. Pursuant to the agreement, Shunri Xinze will be the parent company of the Hongye Chemical Enterprises by injecting RMB4,200 million into the Hongye Chemical Enterprises which are directly paid to Heze Jinda, of which RMB350 million are attributed to the Target Company as capital reserve.

On September 20, 2019, Shunri Xinze directly or indirectly acquired 100% of the registered capital of the Hongye Chemical Enterprises which then became wholly-owned subsidiaries of Shunri Xinze, except for 1.23% equity interest in Fangming Chemical which was transferred to Shunri Xinze on October 17, 2019.

On September 27, 2020, the Court affirmed the completion of the required restructuring actions under the Plan. The Administrators made the payment to the relevant creditors based on the Plan. The Target Company is considered to have discharged all its obligations under the Plan as set out in Note 30.

The Historical Financial Information of the Target Company have been prepared solely for the purpose of inclusion in the financial information to be incorporated in the Circular of pages of IIB-5-4 to IIB-5-43 dated December 8, 2020. Therefore, the comparative figures for the year ended December 31, 2016 have not been prepared.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

For the period prior to August 1, 2019, the accounting records available to the Administrators were incomplete. As the Administrators did not exercise any control over the business, property and affairs of the Target Company prior to their appointment on September 28, 2018, they do not have the same level of knowledge of the financial affairs of the Target Company as the Target Company's then directors. In addition, the key management and staff responsible for maintaining the accounting records of the Target Company prior to August 1, 2019 had left the Target Company. Although the Administrators have used their best endeavor to access all accounting records of the Target Company, they are unable to verify that all transactions entered into by the Target Company prior to their appointment are complete and accurate. Accordingly, the Administrators were unable to satisfy themselves as to the completeness and accuracy in respect of opening balances, the potential claims, the commitments, the contingent liabilities and the pledge of assets in the management accounts prior to August 1, 2019.

Effective from August 1, 2019, the management of the Target Company has maintained accounting records and has prepared management accounts in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "MoF") and the implementation guidance, interpretations and other relevant provisions issued or revised subsequently by the MoF.

The Underlying Financial Statements are prepared by the Directors for the purpose of the Circular, based on the management accounts and accounting policies set out in Note 4 which conform with the IFRSs issued by the IASB, The basis of accounting under IFRSs differs in certain respects from that used in the preparation of the Target Company's management accounts. In preparing the Underlying Financial Statements, appropriate adjustments to conform with IFRSs, which are not taken up in the management accounts of the Target Company, have been made to the Underlying Financial Statements. The auditor of the Underlying Financial Statements as defined on Page IIB-5-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the Administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

In preparing the financial statements as at June 30, 2020, the Directors have considered the net current liabilities position of the Target Company of RMB289,204,000, including RMB316,880,000 relating to outstanding adjudicated indebtedness, as disclosed in Note 20. As at September 27, 2020, the outstanding adjudicated indebtedness of RMB316,880,000 were discharged and waived as appropriate, based on the payment ratio stipulated in the Plan and the Court's affirmation on the Plan's completion. Considering the discharge of the indebtedness, the Directors are of the opinion that the Target Company has sufficient financial resources to meet its working capital requirements and liabilities as and when they fall due for the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing and presenting the financial statements for the Reporting Periods, the Target Company has consistently applied IFRSs, which are effective for the accounting period beginning on January 1, 2020 throughout the Reporting Periods, except that the Target Company applied IFRS 9 "Financial Instruments" and IFRS 16 "Leases" from January 1, 2018 and January 1, 2019, respectively.

IFRS 9 Financial Instruments

The accounting policies for financial instruments which conform with IFRS 9 that are applicable from January 1, 2018 onwards and IAS 39 "Financial Instruments: Recognition and Measurement" which are applicable for the year ended December 31, 2017, are set out in Note 4 below.

The Target Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

The initial application of IFRS 9 has had no material impact on the classification and measurement of the Target Company's financial instruments as at January 1, 2018.

IFRS 16 Leases

The Target Company has applied IFRS 16 for the first time for the accounting period beginning on January 1, 2019. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

The initial application of IFRS 16 had no material impact on the financial statements of the Target Company's financial instruments as at January 1, 2019.

New and revised IFRSs in issue but not yet effective

The Target Company has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[3]

[1] Effective for annual periods beginning on or after January 1, 2023
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after January 1, 2022
[4] Effective for annual periods beginning on or after June 1, 2020
[5] Effective for annual periods beginning on or after January 1, 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis, as explained in the accounting policies below.

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 Company 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 financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases" or IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

The Target Company recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the products or services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;

- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or

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

Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or services.

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

A point in time revenue recognition

The revenue of the Target Company is recognized at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from sales of goods to the Target Company's customers in connection with the production of refined chemical are recognized when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

Leasing

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 3)

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.

For contracts entered into or modified on or after the date of initial application, the Target Company assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3)

Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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.

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

Retirement benefit scheme contribution

Payable to retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages, salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from loss before taxation as reported in the statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

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 in which the liability is settled or the asset is realized, based on tax rates (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 Company expects, at the end of each reporting period, to recover or settle the carrying amounts 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 by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income ("OCI") or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Target Company considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the 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 of goods or services, or for administrative purposes are carried at cost, less any recognized 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 and, for qualifying assets, borrowing costs capitalized in accordance with the Target Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Target Company makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" (before application of IFRS 16) or "right-of-use assets" (after application of IFRS 16) in the statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the costs (other than properties under construction) less their residual values over their 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.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the profit or loss in the period which the item is derecognized.

Impairment on property, plant and equipment

At the end of each reporting period, the Target Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those 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 are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 (or the CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the CGU. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the CGU. An impairment loss is recognized immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using weighted average cost formula. Net realizable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments (before the adoption of IFRS 9 as at January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

Financial assets

The Target Company's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized and derecognized on the trade date, i.e., the date that the Target Company commits to purchase or sell the asset.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, trade receivables, amounts due from related parties and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any identified impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from related parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance accounts are recognized in profit or loss. When a trade and other receivables and an amounts due from related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortized cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Target Company 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 instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities (including trade and other payables, amounts due to related parties and bank and other loans) are subsequently measured at amortized cost, using the effective interest method.

Derecognition

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

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

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial instruments (under IFRS 9 on or after January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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 IFRS 15. 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 amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the reporting 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 or 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 amortized cost:

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

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

Impairment under ECL model

The Target Company recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including other receivables, trade receivables, amounts due from related parties, deposit in Administrator account, cash and cash equivalents). The amount of ECL is updated at the end of each reporting period 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, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of each reporting period. Assessments are done based on the Target Company'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 end of each reporting period as well as the forecast of future conditions.

The Target Company always recognizes lifetime ECL for trade receivables and amounts due from related parties arising from contracts with customers. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except that significant or credit-impaired balances are assessed individually.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood of risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

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

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

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

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

Definition of default

For internal credit risk management, the Target Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay all amounts due in accordance with the contractual terms.

Irrespective of the above, the Target Company considers that default has occurred when financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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 following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

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 adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Target Company recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and amounts due from related parties where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

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

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

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities at amortized cost, including trade and other payable, amounts due to related parties, and the restructuring debts, are initially measured at fair value, net of transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

Derecognition/modification of financial liabilities

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Target Company accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Target Company) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Target Company considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities is calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, which are described in Note 4, the Directors are required to make 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates 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 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 are as follows:

Key sources of estimation uncertainty

Useful life and impairment of property, plant and equipment

In determining whether an asset is impaired, the management requires an estimation of recoverable amount of an individual asset or the CGUs to which the asset belongs, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the assets, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset's value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the CGUs to which the assets belongs.

Changing the assumptions selected by management to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses as at December 31, 2017, 2018 and 2019 and June 30, 2020 were RMB444,438,000, RMB419,424,000, RMB374,377,000 and RMB362,780,000, respectively.

Estimated impairment of doubtful receivables

The Target Company recognizes lifetime ECL since January 1, 2018 for trade receivables assessing individually for debtors with significant or credit-impaired balances or collectively using a provision matrix by appropriate groupings. In addition, the Target Company recognizes lifetime ECL for other receivables when there has been a significant increase in credit risk since initial recognition. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. Further details are included in Note 27.

Taxation

Determining tax provisions involves judgement on the future tax treatments of certain transactions. The Target Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account of all changes in tax legislations.

Due to the change of management team and the restructuring proposal for the Target Company in the past few years as set out in Note 1, the Directors has exercised judgement in estimating the outcome of the tax exposure. Should the tax losses and/or relevant allowance be approved by the local tax authorities, it would have a corresponding adjustments on other gains and losses, income tax payable as set out in Note 14.

6. REVENUE AND SEGMENT INFORMATION

During the Reporting Periods, the Target Company's revenue represents the amount received and receivable from the sales of goods to external customers arising from the sale of refined chemicals. The revenue is recognized at a point in time when the customers obtain control of the goods delivered.

All sales from contracts with customers are for period of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods delivered. Specifically, the Target Company's reportable segments under IFRS 8 are as follows:

Refined chemicals segment: the purchase of coking chemicals from the third parties, and processing such coking chemicals into refined chemical products, as well as marketing and selling such refined chemicals.

The Target Company currently operates in one business segment. A single management team reports to the CODM who comprehensively manage the entire business. For the period from December 31, 2017 to June 30, 2020, there was only one business carried out by the Target Company and all of the Target Company's assets are derived and located in the PRC. Therefore, the Directors concluded that the Target Company is operated in a single reportable segment and no further analysis for segment information is presented.

The following is an analysis of the Target Company's revenue:

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sale of refined chemicals	359,082	160,655	1,776	1,530	1,042

7. OTHER INCOME

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	2	–	–	–	6

8. OTHER EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss on bankruptcy restructuring *(note a)*	–	–	300,632	–	–
Loss on bankruptcy claims *(note b)*	581	435	–	–	–
Expenses on suspension of production *(note c)*	–	–	30,639	15,455	14,836
Others	95	127	–	1,027	–
	676	562	332,298	15,455	14,836

Notes:

a. The debt of the Hongye Group Companies determined by the Court allocated to the Target Company by reference to the proportion of the capital contribution to the Hongye Group Companies on a pro-rata basis, in excess of the Target Company's own debt originally recorded.

b. Penalty interest and fine related to overdue debt.

c. Expense, including depreciation of property, plant and equipment, incurred in relation to the suspension of a production line during the relevant periods.

9. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Impairment of property, plant and equipment *(Note 15)*	–	–	(20,760)	–	–
Others	10	7	3,036	16	2
	10	7	(17,724)	16	2

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net impairment losses recognized in respect of:					
Trade and other receivables *(Note 17)*	–	–	–	–	149

11. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank loans	22,252	10,734	–	–	–
Interest on other loans	5,635	–	–	–	–
	27,887	10,734	–	–	–

All interest charges have been suspended effective from September 28, 2018 onwards. Please refer to the Plan as set out in Note 1 for details.

12. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Staff costs					
Salaries, wages and other benefits	8,904	6,641	4,040	1,807	930
Contributions to retirement benefits scheme	263	632	707	229	48
	9,167	7,273	4,747	2,036	978
Less: Capitalized in inventories	(5,337)	(1,728)	–	–	–
	3,830	5,545	4,747	2,036	978
Other items					
Depreciation of property, plant and equipment	25,898	27,087	26,139	13,486	12,804
Less: Capitalized in inventories	(11,035)	(13,481)	–	–	–
	14,863	13,606	26,139	13,486	12,804
Cost of inventories recognized as an expense	374,724	214,373	1,755	1,509	1,009

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

During the Reporting Periods, no emolument was paid to the Directors, Xing Zhaohua who resigned on September 20, 2019, and Yang Fuli who was appointed on September 20, 2019.

Five highest paid individuals

The five highest paid individuals of the Target Company during the Reporting Periods included no director, whose emoluments are disclosed above. The emoluments in respect of the highest paid individuals during the Reporting Periods are as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, wages and other benefits	342	349	699	365	239
Contributions to retirement benefits scheme	30	31	31	16	3
	372	380	730	381	242

The remunerations of the five highest paid employees are within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Nil to HK$1,000,000	5	5	5	5	5

During the Reporting Periods, no amount was paid or payable by the Target Company to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office.

14. TAXATION

No provision for taxation in the PRC has been made as the Target Company has no taxable profit for the Reporting Periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for the Target Company is 25% for the Reporting Periods.

Taxation for the year/period can be reconciled to the loss before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before taxation	(80,214)	(100,533)	(358,041)	(19,193)	(18,430)
Tax at the PRC tax rate of 25%	(20,054)	(25,133)	(89,510)	(4,798)	(4,608)
Tax effect on:					
Non-deductible expenses	1,726	658	6,180	3,345	–
Unused tax losses and temporary differences not recognized	18,328	24,475	83,330	1,453	4,608
Taxation for the year/period	–	–	–	–	–

As at June 30, 2020, the Target Company has deductible temporary differences of approximately RMB149,000, which are mainly arising from impairment of trade and other receivables of the Target Company. No deferred tax asset has been recognized in relation to such temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilized.

The Directors resubmitted the tax filing to the relevant tax authorities for the past few years, however the tax losses and relevant allowance cannot be ascertained up to the report date.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Machinery and equipment	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At January 1, 2017	177,358	272,991	1,326	29,852	481,527
Additions	–	1,014	3	–	1,017
Transfer from construction in progress	–	29,852	–	(29,852)	–
At December 31, 2017	177,358	303,857	1,329	–	482,544
Additions	–	2,073	–	–	2,073
At December 31, 2018	177,358	305,930	1,329	–	484,617
Additions	–	1,852	–	–	1,852
At December 31, 2019	177,358	307,782	1,329	–	486,469
Additions	–	–	–	1,207	1,207
At June 30, 2020	177,358	307,782	1,329	1,207	487,676
Depreciation and impairment					
At January 1, 2017	3,370	8,687	151	–	12,208
Depreciation	6,740	18,855	303	–	25,898
At December 31, 2017	10,110	27,542	454	–	38,106
Depreciation	6,740	20,043	304	–	27,087
At December 31, 2018	16,850	47,585	758	–	65,193
Depreciation	6,740	19,202	197	–	26,139
Impairment	–	20,698	62	–	20,760
At December 31, 2019	23,590	87,485	1,017	–	112,092
Depreciation	3,370	9,389	45	–	12,804
At June 30, 2020	26,960	96,874	1,062	–	124,896
Carrying amounts					
At December 31, 2017	167,248	276,315	875	–	444,438
At December 31, 2018	160,508	258,345	571	–	419,424
At December 31, 2019	153,768	220,297	312	–	374,377
At June 30, 2020	150,398	210,908	267	1,207	362,780

The above items of property, plant and equipment, other than construction in progress, after taking into account their estimated residuals, are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Machinery and equipment	5–30 years
Office equipment	2–15 years

Details of the pledged property, plant and equipment are set out in Note 28.

All leasehold land and buildings are located in the PRC.

16. INVENTORIES

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	5,395	4,816	4,596	3,638
Finished goods	276	643	781	781
	5,671	5,459	5,377	4,419

17. OTHER RECEIVABLES/TRADE RECEIVABLES

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	378	204	365	477
Less: impairment	–	–	–	(149)
	378	204	365	328
Prepayments for raw materials	171	3,254	–	1,077
Other deposits, prepayments and other receivables	–	5	1	–
Deductible input Value Added Tax and prepaid other taxes and charges	44,183	14,755	15,198	15,850
	44,354	18,014	15,199	16,927

Aging of trade receivables net of allowance for bad debts based on invoice dates, which approximated the respective revenue recognition dates, are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	–	–	–	22
1 to 3 months	–	–	75	5
3 to 6 months	378	204	141	85
6 to 12 months	–	–	149	216
	378	204	365	328

The table below is analysis of trade receivables as at December 31, 2017 under IAS 39:

	As at December 31, 2017
	RMB'000
Not past due and not impaired	–
Past due but not impaired	378
Total trade receivables	378

Starting from January 1, 2018, the Target Company applied the ECL model prescribed by IFRS 9, and the impairment methodology of ECL model is set out in Note 27.

The movements in the allowance for doubtful debts are as follows:

	Year ended December 31,			Six months ended June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	–	–	–	–
Impairment losses recognized on receivables	–	–	–	149
At the end of the reporting period	–	–	–	149

18. CASH AND CASH EQUIVALENTS

Bank balances carried interest at market interest rate ranging from 0.3% to 0.35% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Bank balances and cash as at December 31, 2017, 2018 and 2019 and June 30, 2020 were denominated in RMB.

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	6	63	1,246	701

19. BANK AND OTHER LOANS

The analysis of the carrying amount of bank and other loans is as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– Secured	300,000	–	–	–

At the end of each reporting period, the bank and other loans were payable as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	300,000	–	–	–
Analyzed for reporting purpose as:				
Current liabilities	300,000	–	–	–

The bank and other loans carry interest at the rates ranging from 4.75% to 7.80% per annum.

In 2017, the Target Company breached the covenants in a loan agreement, which are primarily related to the debt-equity ratio of the Target Company. The carrying amounts of bank and other loans that are repayable on demand due to breach of loan covenants were shown under current liabilities.

According to the judgment made by the Court on September 28, 2018, all bank and other loans were reclassified to restructuring debt as set out in Note 20.

20. RESTRUCTURING DEBTS

	December 31, 2018 *RMB'000*	December 31, 2019 *RMB'000*	June 30, 2020 *RMB'000*
Taxes payable *(note a)*			
– trade and other payables	2,969	2,969	–
Secured and unsecured debts confirmed by the Administrators *(notes b and c)*			
– trade and other payables	45,469	39,303	36,010
– bank and other loans *(Note 19)*	310,745	275,874	275,874
	356,214	315,177	311,884
Unconfirmed debts by the Administrators *(note d)*			
– trade and other payables	4,996	4,996	4,996
	364,179	323,142	316,880

Restructuring debts represent indebtedness entering into adjudication process effective from September 28, 2018 and the debts affirmed by the Court on July 31, 2019 after due adjudication by the Administrators.

According to the Plan disclosed in Note 1, the adjudicated indebtedness below is to be settled based on the payment sequence and ratio stipulated in the Plan, using the funds injected by Shunri Xinze, with the balance to be discharged upon the completion of such payment and the Court's affirmation of such completion. The relevant indebtedness includes:

(a) the taxes payable and salaries payable which will be paid in full;

(b) secured debts, if any, will be paid at a percentage of the realized value of the pledged assets and the unpaid portion will be fulfilled together with other unsecured debts;

(c) unsecured debts less than RMB200,000 which will be paid in full and unsecured debts more than RMB200,000 which will be paid at ratio of 11.13% according to the Plan; and

(d) unconfirmed debts, which consist of debts pending for endorsement by creditors and the Court as well as potential creditor claims yet to be received, will be paid in accordance with the Plan for the similar indebtedness.

The total estimated indebtedness affirmed by the Court is approximately RMB364,179,000 as at September 28, 2018. As disclosed in Note 30, the Court affirmed on September 27, 2020 the completion of the Plan including the payment made by Shunri Xinze in September 2019, out of which the Administrators paid the debts claimants in accordance with the Plan. The resulting gain of RMB314,811,000, being the balance of the indebtedness waived and discharged in line with the Plan, are considered by the Directors as an non-adjusting subsequent event. As of the date of September 27, 2020, the balance of fund in Administrator account amounted to RMB2,084,000.

21. TRADE AND OTHER PAYABLES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	37,562	1,388	–	–
Payables for construction in progress	4,274	245	143	30
Other payables and accruals	17,420	3,591	646	1,238
	59,256	5,224	789	1,268

Trade and other payables are generally expected to be settled within one year.

The following is an aging analysis of trade payables based on the invoice date at the end of each reporting period:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	22,000	1,388	–	–
4 to 6 months	–	–	–	–
7 to 12 months	8,083	–	–	–
1–2 years	570	–	–	–
2–3 years	6,909	–	–	–
More than 3 years	–	–	–	–
	37,562	1,388	–	–

According to the judgment made by the Court on September 28, 2018, the carrying value of trade and other payables as at September 28, 2018 were reclassified to restructuring debt as set out in Note 20.

22. SHARE CAPITAL

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Presented in the statements of financial position as:	300,000	300,000	300,000	300,000

23. RESERVES

Capital reserve

In 2018, the change of capital reserve represents:

a. the capital contribution amounting to RMB400,437,000 from Hongye Chemical in accordance with an agreement with Hongye Chemical dated July 5, 2018;

b. the net amount owing to the Target Company of RMB155,505,000 waived according to the waiver agreements within the Hongye Group Companies which was accounted for as a deemed capital reduction and recognized in capital reserve.

In 2019, the addition of capital reserve represents capital injection amounting to RMB350,000,000 from Shunri Xinze as set out in Note 1 and 20.

24. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the Target Company participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities whereby the Target Company is required to make contributions to the Schemes based on applicable rates. The municipal government authorities are responsible for the entire pension obligations payable to retired employees.

The Target Company has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

25. RELATED PARTY TRANSACTIONS AND BALANCES

Prior to September 20, 2019, the following entities were considered as the related companies of the Target Company:

Name of related party	Relationship with the Target Company
洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd)	Ultimate holding company in Other Hongye Companies
山東洪業如松化工設備安裝有限公司 (Shandong Hongye Rusong Chemical Equipment Installation Co., Ltd)	*note b*
山東吉昌化工有限責任公司 (Shandong Jichang Chemical Co., Ltd)	*note b*
菏澤開發區洪源小額貸款有限公司 (Heze Development Zone Hongyuan Small Loan Co., Ltd)	*note b*
菏澤市洪源供水有限公司 (Heze Hongyuan Water Supply Co., Ltd)	*note b*
菏澤洪方商貿有限公司 (Heze Hongfang Trading Co., Ltd)	*note b*
上海洪魯國際貿易有限公司 (Shanghai Honglu International Trade Co., Ltd)	*note b*
上海多凱國際貿易有限公司 (Shanghai Duokai International Trade Co., Ltd)	*note b*
上海洪魯化工技術有限公司 (Shanghai Honglu Chemical Technology Co., Ltd)	*note b*
山東天秀化工貿易有限公司 (Shandong Tianxiu Chemical Trade Co., Ltd)	*note b*
山東吉安化工有限公司 (Shandong Ji'an Chemical Co., Ltd)	*note b*
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明藥業集團股份有限公司 (Shandong Fangming Pharmaceutical Group Co., Ltd)	*note c*
菏澤市方明製藥有限公司 (Heze Fangming Pharmaceutical Co., Ltd)	*note c*
上海眾諾國際貿易有限公司 (Shanghai Zhongnuo International Trade Co., Ltd)	*note c*
山東方明邦嘉製藥有限公司 (Shandong Fangming Bangjia Pharmaceutical Co., Ltd)	*note c*
東明縣洪方化工科技服務有限公司 (Dongming Hongfang Chemical Technology Service Co., Ltd)	*note c*
菏澤堯舜牡丹生物科技有限公司 (Heze Yaoshun Peony Biotechnology Co., Ltd)	*note c*
菏澤堯舜酒店管理有限公司 (Heze Yaoshun Hotel Management Co., Ltd)	*note c*

Name of related party	Relationship with the Target Company
菏澤市中小企業融資擔保有限公司 (Heze SME Financing Guarantee Co., Ltd)	*note c*
山東洪方精細化工有限公司 (Shandong Hongfang Fine Chemical Co., Ltd)	*note c*
山東東藥藥業股份有限公司 (Shandong Dongyao Pharmaceutical Co., Ltd)	*note c*
菏澤萊佛生物科技有限公司 (Heze Laifo Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
菏澤百奧靈生物科技有限公司 (Heze Baiaoling Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
山東洪豐麵粉有限公司 (Shandong Hongfeng Flour Co., Ltd)	*note c*
開封天池化工有限公司 (Kaifeng Tianchi Chemical Co., Ltd)	*note c*

Note a: According to the Plan set out in Note 1, certain entities ceased to be a related company of the Target Company from September 20, 2019 onwards.

Note b: Fellow subsidiary in the Other Hongye Companies.

Note c: Entity controlled by the then ultimate beneficial owner in the Other Hongye Companies.

Note d: According to the Plan, the related party balances as at September 28, 2018 were waived within the Hongye Group Companies.

Subsequent to September 20, 2019, the following entities were considered as the related companies of the Target Company.

Name of related party	Relationship with the Target Company
中國信達資產管理股份有限公司 (China Cinda)	Ultimate holding company
蕪湖順日信澤股權投資合夥企業(有限合夥) (Shunri Xinze)	Immediate holding company
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary
山東勇智化工有限公司 (Yongzhi Chemical)	Fellow subsidiary
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

Other than the transactions disclosed in Notes 1, 20 and 23 in the Historical Financial Information, the Target Company entered into the following material related party transactions:

(a) Transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchases of goods from					
– Fellow subsidiaries	333,733	179,396	4,675	2,290	1,068
– Other Hongye Companies	7,584	650	1,232	–	–
Sales of goods to					
– Fellow subsidiaries	47,392	2,033	143	89	942
– Other Hongye Companies	373,517	–	–	–	–
Administrative fee to					
– Other Hongye Companies	4,823	8,763	–	–	–
Rental expenses					
– Fellow subsidiaries	–	–	–	–	2,928

The above related party transactions were conducted in accordance with terms of the relevant agreements.

(b) Balances with related parties

At the end of each reporting period, the Target Company had the following balances with related parties:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
Non-trade nature – receivables				
– Fellow subsidiaries	–	–	11,027	8,435
– Other Hongye Companies	298,957	–	–	–
	298,957	–	11,027	8,435
Prepayments				
– Fellow subsidiaries	138	28,058	–	–
Analyzed for reporting purposes as:				
Current portion	299,095	28,058	11,027	8,435

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to related parties				
Non-trade nature				
– Fellow subsidiaries	–	–	–	2,928
– Other Hongye Companies	97,208	–	–	–
	97,208	–	–	2,928
Trade nature				
– Fellow subsidiaries	378,093	1,464	–	1,022
– Other Hongye Companies	3,737	–	–	–
	381,830	1,464	–	1,022
	479,038	1,464	–	3,950
Analyzed for reporting purposes as:				
Current portion	479,038	1,464	–	3,950

Aging of amounts due to related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	114	1,464	–	1,022
1 to 3 months	–	–	–	–
3 to 6 months	248,996	–	–	–
6 to 12 months	132,720	–	–	–
	381,830	1,464	–	1,022

26. CAPITAL MANAGEMENT

The Target Company's primary objectives of managing capital are to safeguard the Target Company's ability to continue as a going concern, and to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions.

Based on recommendations of the board of directors, the Target Company will balance its overall capital structure through adjusting the amount of dividends paid to shareholders, issues of new shares, raise new debt financing or selling assets to reduce debt. During the Reporting Periods, the objectives, policies or processes were changed from July 31, 2019 onwards, upon the engagement of the Risun Chemicals as the operation agent as per agreement.

The Target Company monitors capital with reference to its debt position. The Target Company's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligation.

27. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of each reporting period are set out as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Target Company				
Financial assets				
Loans and receivables (including cash and cash equivalents)	299,341	–	–	–
Financial assets at amortized cost	–	272	20,985	11,548
Financial liabilities				
Financial liabilities at amortized cost	832,165	366,814	320,316	320,905

Financial risk management objectives and policies

The Target Company's major financial instruments include trade receivables, other receivables, amounts due from related parties, deposit in Administrator account, cash and cash equivalents, trade and other payables, restructuring debts, amounts due to related parties and bank and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. From July 31, 2019 onwards, the management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

For the year ended December 31, 2019 and the period ended June 30, 2020, the Director(s) consider that the interest rate risk of the Target Company is limited as the finance charges have been suspended. Please refer to the Plan as set out in Note 1 for details.

Due to incomplete record, change of management team and the Plan as set out in Note 1, in management's opinion, the disclosure of interest rate risk for the years ended December 31, 2017 and 2018 are unrepresentative as these year-end exposure does not reflect the exposure of the Target Company during the relevant years. Thus, no disclosure were prepared.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Company's counterparties default on their contractual obligations resulting in financial losses to the Target Company. The Target Company's credit risk exposures are primarily attributable to trade receivables, other receivables, cash and cash equivalents, amounts due from related parties and deposit in Administrator account. The Target Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

At the end of each reporting period, other than financial assets whose carrying amounts best represent the maximum credit risk, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the amount of contingent liabilities disclosed in Note 29.

In order to minimize the credit risk, the Target Company mainly conducted transactions with customers with good quality, when accepting new customers, the Target Company requests advanced payment before the goods delivered.

To manage risk arising from bank balances, the Target Company mainly transacts with state-owned or reputable financial institutions in PRC. There has been no recent history of default in relation to these financial institutions. Therefore the management of the Target Company considers the credit risk arising from cash and cash equivalents is insignificant.

For trade receivables and amounts due from related parties of trade nature, the Target Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The ECL on these assets are assessed individually for debtors with significant or credit-impaired balances or collectively using a provision matrix by appropriate groupings. As part of the Target Company's credit risk management, the Target Company uses debtors' aging to assess the impairment for its customers because its customers share common risk characteristics that are representative of the customers' abilities to pay the amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted using forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

For all other instruments including, other receivables, deposit in Administrator account and amounts from related parties of non-trade nature, the Target Company measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The Target Company has assessed and concluded that the risk of default rate for these instruments are steady based on the Target Company's assessment of the financial health of the counterparties.

The tables below detail the credit risk exposures of the Target Company's trade and other receivables, deposit in Administrator account and amounts due from related parties, which are subject to ECL assessment:

	Notes	Internal credit rating	12-month or lifetime ECL	December 31, 2018 Gross carrying amount		December 31, 2019 Gross carrying amount		June 30, 2020 Gross carrying amount	
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortized cost									
Other receivables	17	*Note*	12-month ECL	5		1		–	
			Credit-impaired (individually)	–	5	–	1	–	–
Deposit in Administrator account		*Note*	12-month ECL	–	–	8,346	8,346	2,084	2,084
Amounts due from related parties	25	*Note*	Not Credit-impaired (individually)	–	–	11,027	11,027	8,435	8,435
Trade receivables	17	*Note*	Lifetime ECL (provision matrix)	204		365		328	
			Credit-impaired (individually)	–	204	–	365	149	477

Note: These balances are unsecured and with no fixed repayment terms. Set out below is the impairment provision of the financial assets.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables and amounts due from related parties of trade nature under the simplified approach:

	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2018, December 31, 2018 and 2019	–	–	–
– Impairment losses recognized	–	149	149
At June 30, 2020	–	149	149

The trade receivables with gross carrying amounts of nil, nil and RMB149,000 as at December 31, 2018, December 31, 2019 and June 30, 2020, respectively, were assessed individually, and impairment allowance of nil, nil and RMB149,000 were made on these debtors.

Liquidity risk

The Directors are responsible for cash management of the Target Company, including the raising of loans to cover expected cash demands. The Target Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

At the end of each reporting period, almost all remaining contractual maturities of the Target Company's financial liabilities were within one year.

Fair values

Fair values of financial instruments carried at amortized cost

Except for the fair values of the restructuring debts, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information of the Target Company approximate their fair values due to short maturity or with floating interest rates. The fair value of restructuring debts amounting to RMB8,331,000 and RMB2,069,000 as at December 31, 2019 and June 30, 2020, respectively, are evaluated based on the future cash flow of restructuring debts in accordance with the Plan and the investment agreement.

28. PLEDGE OF ASSETS

At the end of each reporting period, certain assets were pledged to secure banking facilities granted to the Target Company and their carrying amounts are as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	122,620	109,935	–	–

According to the judgment made by the Court on July 31, 2019, all assets pledged to the financial institutions were released during the year of 2019.

29. CONTINGENT LIABILITIES

Undeclared claims of the Target Company

According to the Plan, the undeclared creditors, of which no provision was made by the Target Company, will have right to request payment within two years after the completion of the Plan on September 27, 2020. The Directors believe, based on the indemnity provided by Heze Jinda, that further payment to be made by the Target Company is remote and therefore no further provision is required.

30. EVENTS AFTER REPORTING PERIODS

As disclosed in Note 20, the Court affirmed the completion of the Plan on September 27, 2020.

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to June 30, 2020.

The following is the text of a report set out on pages IIB-6-1 to IIB-6-47, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF 山東勇智化工有限公司 (SHANDONG YONGZHI CHEMICAL CO., LTD.) TO THE DIRECTORS OF CHINA RISUN GROUP LIMITED

Introduction

We are engaged to report on the historical financial information of 山東勇智化工有限公司 (Shandong Yongzhi Chemical Co., Ltd., the "Yongzhi Chemical", the "Target Company") set out on pages IIB-6-4 to IIB-6-47, which comprises the statements of financial position of the Target Company as at December 31, 2017, 2018 and 2019 and June 30, 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for the three years ended December 31, 2019 and the six months ended June 30, 2020 (the "Reporting Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information of the Target Company"). The Historical Financial Information of the Target Company set out on pages IIB-6-4 to IIB-6-47 forms an integral part of this report, which has been prepared for inclusion in the circular of China Risun Group Limited (the "Company") dated December 8, 2020 (the "Circular") in connection with the proposed acquisition of the Target Company.

Responsibilities of the Directors of the Target Company and the Company

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

The directors of the Company are responsible for the content of this Circular in which the Historical Financial Information of the Target Company 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 conduct 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") and to report to you. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

We complied with ethical standards as required by this standard.

Disclaimer of Opinion on the Historical Financial Information of the Target Company

We do not express an opinion on the Historical Financial Information of the Target Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Historical Financial Information of the Target Company.

Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company

As set out in Note 2 to the Historical Financial Information, the Historical Financial Information of the Target Company was prepared based on incomplete accounting records. The auditor of the Underlying Financial Statements as defined on page IIB-6-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the bankruptcy administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

We were unable to carry out the procedures we considered necessary to assess the impact of the matter described on the Underlying Financial Statements to form a basis for an audit opinion on the Historical Financial Information. We were also unable to determine whether any adjustments might have been found necessary in respect of the Historical Financial Information of the Target Company.

Disclaimer of Conclusion on Stub Period Comparative Financial Information of the Target Company

We were engaged to review the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended June 30, 2019 and other explanatory information (the "Stub Period Comparative Financial Information of the Target Company"). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information of the Target Company in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information of the Target Company. Our responsibility is to conduct our review in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Because of the significance of the

matters described in the Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company section of our report, we were unable to obtain sufficient appropriate evidence to form a conclusion on the Stub Period Comparative Financial Information of the Target Company. Accordingly, we do not express a conclusion on the Stub Period Comparative Financial Information of the Target Company.

Basis for Disclaimer of Conclusion on the Stub Period Comparative Financial Information of the Target Company

We were unable to carry out the procedures we considered necessary to assess the consequential impact of the matters described on the Underlying Financial Statements and the Basis for Disclaimer of Opinion on the Historical Financial Information of the Target Company section of our report, to form a basis for a conclusion on the Stub Period Comparative Financial Information of the Target Company. We were also unable to determine whether any adjustments might have been found necessary in respect of the Stub Period Comparative Financial Information of the Target Company.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-6-4 have been made.

Dividends

No dividend was declared or paid by the Target Company in respect of the Reporting Periods.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

December 8, 2020

HISTORICAL FINANCIAL INFORMATION OF YONGZHI CHEMICAL

Preparation of the Historical Financial Information of the Target Company

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

The financial statements of the Target Company for the Reporting Periods, on which the Historical Financial Information of the Target Company is based, have been prepared by the directors of the Target Company (the “Directors”) in accordance with the accounting policies which conform with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) and were audited by us in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “Underlying Financial Statements”) of which a disclaimer of opinion was issued as set out in Note 2.

The Historical Financial Information of the Target Company is presented in Renminbi (“RMB”), which is also the functional currency of the Target Company, and all values are rounded to the nearest thousand (“RMB’000”) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended June 30,	
	Notes	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue from contracts with customers	6	376,343	888,197	766,583	402,611	255,454
Cost of sales		(397,233)	(762,571)	(814,002)	(354,200)	(299,023)
Gross (loss) profit		(20,890)	125,626	(47,419)	48,411	(43,569)
Other income	7	1	–	1	–	36
Other expense	8	(136)	(225)	(198,373)	–	–
Other gains and losses	9	4	123	2,055	31	27
Impairment losses, net of reversal	10	(5)	(100)	(11,927)	–	–
Selling and distribution expenses		(616)	(5,110)	(809)	(520)	(89)
Administrative expenses		(20,825)	(16,449)	(42,301)	(3,804)	(1,478)
(Loss) profit from operations		(42,467)	103,865	(298,773)	44,118	(45,073)
Finance costs	11	(22,745)	(20,187)	–	–	–
(Loss) profit before taxation	12	(65,212)	83,678	(298,773)	44,118	(45,073)
Taxation	14	–	–	–	–	–
(Loss) profit for the year/period		(65,212)	83,678	(298,773)	44,118	(45,073)
Total comprehensive (expense) income for the year/period		(65,212)	83,678	(298,773)	44,118	(45,073)
(Loss) profit for the year/period attributable to equity holder of the Target Company		(65,212)	83,678	(298,773)	44,118	(45,073)
Total comprehensive (expense) income for the year/period attributable to equity holder of the Target Company		(65,212)	83,678	(298,773)	44,118	(45,073)

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Notes	As at December 31, 2017	2018	2019	As at June 30, 2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	15	400,540	374,422	344,305	332,935
Right-of-use assets	16	–	–	28,756	28,433
Prepaid lease payments	17	29,401	28,756	–	–
		429,941	403,178	373,061	361,368
Current assets					
Prepaid lease payments	17	430	645	–	–
Inventories	18	35,261	71,715	66,250	66,651
Other receivables	19	55,210	58,406	20,983	24,317
Trade receivables	19	100	254,275	–	1,984
Amounts due from related parties	27(b)	338,173	1,464	229,967	356,388
Deposit in Administrator account		–	–	17,322	12,690
Cash and cash equivalents	20	6	155	3,448	2,538
		429,180	386,660	337,970	464,568
Current liabilities					
Trade and other payables	23	38,400	2,414	48,474	210,122
Contract liabilities		–	–	–	337
Restructuring debts	22	–	570,958	386,645	382,013
Bank and other loans	21	437,974	–	–	–
Amounts due to related parties	27(b)	442,711	47,591	5,810	8,435
		919,085	620,963	440,929	600,907
Net current liabilities		(489,905)	(234,303)	(102,959)	(136,339)
Total assets less current liabilities and net (liabilities) assets		(59,964)	168,875	270,102	225,029
Capital and reserves					
Share capital	24	300,000	300,000	300,000	300,000
Reserves	25	(359,964)	(131,125)	(29,898)	(74,971)
Total equity attributable to equity holder of the Target Company		(59,964)	168,875	270,102	225,029
Total (deficit) equity		(59,964)	168,875	270,102	225,029

STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company				
	Share capital	**Capital reserve**	**Safety fund**	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 24)	*(Note 25)*	*(Note 25)*		
Balance at January 1, 2017	300,000	–	–	(294,752)	5,248
Loss for the year	–	–	–	(65,212)	(65,212)
Balance at December 31, 2017	300,000	–	–	(359,964)	(59,964)
Capital contribution	–	403,476	–	–	403,476
Deemed capital reduction	–	(258,315)	–	–	(258,315)
Net transfer to safety fund	–	–	2,844	(2,844)	–
Profit for the year	–	–	–	83,678	83,678
Balance at December 31, 2018	300,000	145,161	2,844	(279,130)	168,875
Capital contribution	–	400,000	–	–	400,000
Loss for the year	–	–	–	(298,773)	(298,773)
Transfer to retained earning	–	–	5,787	(5,787)	–
Balance at December 31, 2019	300,000	545,161	8,631	(583,690)	270,102
Loss for the period	–	–	–	(45,073)	(45,073)
Net transfer to safety fund	–	–	2,526	(2,526)	–
Balance at June 30, 2020	300,000	545,161	11,157	(631,289)	225,029
Balance at January 1, 2019	300,000	145,161	2,844	(279,130)	168,875
Profit for the period	–	–	–	44,118	44,118
Transfer to safety fund	–	–	2,949	(2,949)	–
Balance at June 30, 2019 (unaudited)	300,000	145,161	5,793	(237,961)	212,993

STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended June 30,	
		2017	2018	2019	2019	2020
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
(Loss) profit before taxation		(65,212)	83,678	(298,773)	44,118	(45,073)
Adjustments for:						
Other income		(1)	–	(1)	–	(36)
Other expense		30	20	198,373	–	–
Other gains or losses, net		–	–	(1,504)	–	–
Finance costs		22,745	20,187	–	–	–
Impairment losses, net of reversal		5	100	11,927	–	–
Depreciation		5,919	3,239	368	184	31
Operating cash flows before movements in working capital		(36,514)	107,224	(89,610)	44,302	(45,078)
Decrease/(increase) in inventories		158,759	(11,708)	33,467	31,306	13,695
Decrease/(increase) in trade receivables, and other receivables		306,572	(257,471)	279,771	(26,750)	(5,318)
(Decrease)/increase in trade and other payables and contract liabilities		(48,163)	246,119	53,677	266,991	161,985
(Increase)/decrease in amounts due from related parties		(338,173)	336,709	(228,503)	(264,575)	(126,421)
(Decrease)/increase in amounts due to related parties		–	(395,120)	(41,781)	(47,591)	2,625
Net cash generated from operating activities		42,481	25,753	7,021	3,683	1,488

		Year ended December 31,			Six months ended June 30,	
	Note	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Investing activities						
Interest received		1	–	1	–	36
Purchases of property, plant and equipment		(19,809)	(5,417)	(3,729)	(3,729)	(2,434)
Net cash used in investing activities		(19,808)	(5,417)	(3,728)	(3,729)	(2,398)
Financing activities						
New bank borrowings		77,000	–	–	–	–
Repayment of bank borrowings		(77,276)	–	–	–	–
Interest paid		(22,745)	(20,187)	–	–	–
Net cash used in financing activities		(23,021)	(20,187)	–	–	–
Net (decrease) increase in cash and cash equivalents		(348)	149	3,293	(46)	(910)
Cash and cash equivalents at the beginning of the year/period		354	6	155	155	3,448
Cash and cash equivalents at the end of the year/period	20	6	155	3,448	109	2,538

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BANKRUPTCY RESTRUCTURING

Yongzhi Chemical was established in the People's Republic of China (the "PRC") on December 15, 2002 with limited liability. The registered office of the Target Company is Chemical Industry Park, Yuncheng County, Heze, Shandong Province, the PRC. The Target Company is engaged in the production, sale and distribution of refined chemicals (the "Core Business").

On September 28, 2018, Heze Intermediate People's Court in China (the "Court") appointed bankruptcy administrators (the "Administrators") for 洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd, "Hongye Chemical"), the ultimate holding company of the Target Company, its subsidiaries and certain other related companies (collectively referred to as the "Hongye Group Companies").

On July 31, 2019, the Court affirmed the restructuring proposal (the "Plan"), which includes:

- the acquisition of the Hongye Group companies including the Target Company, 山東方明化工股份有限公司 (Shandong Fangming Chemical Co., Ltd., the "Fangming Chemical"), 山東東巨化工股份有限公司 (Shandong Dongju Chemical Co., Ltd., the "Dongju Chemical"), 山東恒順供熱有限公司 (Shandong Hengshun Heat Supply Co., Ltd., the "Hengshun Heat Supply"), 山東洪達化工有限公司 (Shandong Hongda Chemical Co., Ltd., the "Hongda Chemical") and 山東洪鼎化工有限公司 (Shandong Hongding Chemical Co., Ltd., the "Hongding Chemical") (collectively referred to as the "Hongye Chemical Enterprises") by Heze Jinda Asset Management Company ("Heze Jinda", the sole restructuring investor); and

- a capital restructuring and debt restructuring of Hongye Group Companies, as well as injection of funds into Hongye Chemical Enterprises to restructure its indebtedness adjudicated by the Administrators as set out in Note 22. According to the Plan and Article 46 of the "Enterprise Bankruptcy Law" of the PRC, all adjudicated creditor claims fell due and payable and all interest charges, if applicable, have been suspended effective from the date of the Court's affirmation of the Plan.

Since July 2019, 旭陽集團有限公司 (Risun Group Limited, "Risun Chemicals", formerly known as 旭陽化工有限公司 Risun Chemicals Limited) and its subsidiary 北京旭陽宏業化工有限公司 (Beijing Risun Hongye Chemicals Company Limited), subsidiaries of the Company, were jointly engaged to manage the daily operation of Hongye Chemical Enterprises, including keeping the accounting records, on behalf of the Administrators.

On September 16, 2019, 蕪湖順日信澤股權投資合夥企業(有限合夥) (Wuhu Shunri Xinze Equity Investment Partnership (LP), "Shunri Xinze"), a subsidiary of the 中國信達資產管理股份有限公司 (China Cinda Asset Management Co., Ltd., "China Cinda"), entered into an agreement with Heze Jinda, the Administrators, and Hongye Chemical Enterprises. Pursuant to the agreement, Shunri Xinze will be the parent company of Hongye Chemical Enterprises by injecting RMB4,200 million into Hongye Chemical Enterprises which are directly paid to Heze Jinda, of which RMB400 million are attributed to the Target Company as capital reserve.

On September 20, 2019, Shunri Xinze directly or indirectly acquired 100% of the registered capital of the Hongye Chemical Enterprises which then became wholly-owned subsidiaries of Shunri Xinze, except for 1.23% equity interest in Fangming Chemical which was transferred to Shunri Xinze on October 17, 2019.

On September 27, 2020, the Court affirmed the completion of the required restructuring actions under the Plan. The Administrators made the payment to the relevant creditors based on the Plan. The Target Company is considered to have discharged all its obligations under the Plan as set out in Note 32.

The Historical Financial Information of the Target Company have been prepared solely for the purpose of inclusion in the financial information to be incorporated in the Circular of pages of IIB-6-4 to IIB-6-47 dated December 8, 2020. Therefore, the comparative figures for the year ended December 31, 2016 have not been prepared.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

For the period prior to August 1, 2019, the accounting records available to the Administrators were incomplete. As the Administrators did not exercise any control over the business, property and affairs of the Target Company prior to their appointment on September 28, 2018, they do not have the same level of knowledge of the financial affairs of the Target Company as the Target Company's then directors. In addition, the key management and staff responsible for maintaining the accounting records of the Target Company prior to August 1, 2019 had left the Target Company. Although the Administrators have used their best endeavor to access all financial and business records of the Target Company, they are unable to represent that all transactions entered into by the Target Company prior to their appointment are complete and accurate. Accordingly, the Administrators were unable to satisfy themselves as to the completeness and accuracy in respect of opening balances, the potential claims, the commitments, the contingent liabilities and the pledge of assets in the management accounts prior to August 1, 2019.

Effective from August 1, 2019, the management of the Target Company has maintained accounting records and has prepared management accounts in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "MoF") and the implementation guidance, interpretations and other relevant provisions issued or revised subsequently by the MoF.

The Underlying Financial Statements are prepared by the Directors for the purpose of the Circular, based on the management accounts and accounting policies set out in Note 4 which conform with the IFRSs issued by the IASB. The basis of accounting under IFRSs differs in certain respects from that used in the preparation of the Target Company's management accounts. In preparing the Underlying Financial Statements, appropriate adjustments to conform with IFRSs, which are not taken up in the management accounts of the Target Company, have been made to the Underlying Financial Statements. The auditor of the Underlying Financial Statements as defined on Page IIB-6-4 did not express an opinion on the Underlying Financial Statements as the auditor was unable to obtain adequate accounting records for the period prior to August 1, 2019 from the Administrators and unable to carry out necessary procedures in order to obtain sufficient appropriate audit evidence for the carrying values of certain items and disclosures included in the Underlying Financial Statements.

In preparing the financial statements as at June 30, 2020, the Directors have considered the net current liabilities position of the Target Company of RMB136,339,000, including RMB382,013,000 relating to outstanding adjudicated indebtedness, as disclosed in Note 22. As at September 27, 2020, the outstanding adjudicated indebtedness of RMB382,013,000 were discharged and waived as appropriate, based on the payment ratio stipulated in the Plan and the Court's affirmation on the Plan's completion. Considering the discharge of the indebtedness, the Directors are of the opinion that the Target Company has sufficient financial resources to meet its working capital requirements and liabilities as and when they fall due for the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing and presenting the financial statements for the Reporting Periods, the Target Company has consistently applied IFRSs, which are effective for the accounting period beginning on January 1, 2020 throughout the Reporting Periods, except that the Target Company applied IFRS 9 "Financial Instruments" and IFRS 16 "Leases" from January 1, 2018 and January 1, 2019, respectively.

IFRS 9 Financial Instruments

The accounting policies for financial instruments which conform with IFRS 9 that are applicable from January 1, 2018 onwards and IAS 39 "Financial Instruments: Recognition and Measurement" which are applicable for the year ended December 31, 2017, are set out in Note 4 below.

The Target Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

The initial application of IFRS 9 has had no material impact on the classification and measurement of the Target Company's financial instruments as at January 1, 2018.

IFRS 16 Leases

The Target Company has applied IFRS 16 for the first time for the accounting period beginning on January 1, 2019. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

Definition of a lease

The Target Company has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Company has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Target Company applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Target Company has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Target Company applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts: elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application or leases with low value.

The carrying amount of right-of-use assets for own use as at January 1, 2019 comprises the following:

		Right-of-use assets
		RMB'000
Reclassified from prepaid lease payment	(a)	29,401
By class:		
Leasehold land and land use rights		29,401

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, prepaid lease payments amounting to RMB29,401,000 were reclassified to right-of-use assets.

New and revised IFRSs in issue but not yet effective

The Target Company has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[3]

1 Effective for annual periods beginning on or after January 1, 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2022
4 Effective for annual periods beginning on or after June 1, 2020
5 Effective for annual periods beginning on or after January 1, 2021

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis, as explained in the accounting policies below.

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 Company 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 financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 "Leases" or IFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

The Target Company recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the products or services underlying the particular performance obligation is transferred to the customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;
- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or
- the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or services.

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

A point in time revenue recognition

The revenue of the Target Company is recognized at a point in time. Under the transfer-of-control approach in IFRS 15, revenue from sales of goods to the Target Company's customers in connection with the production of refined chemical are recognized when the goods are physically passed to the customers, which is the point of time when the customer has the ability to direct the use of the goods and obtain substantially all of the remaining benefits of the goods upon customer acceptance.

Leasing

The Target Company as lessee (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease.

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 3)

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.

For contracts entered into or modified on or after the date of initial application, the Target Company assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Company as a lessee (upon application of IFRS 16 in accordance with transitions in Note 3)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Target Company.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Target Company is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Company presents right-of-use assets that do not meet the definition of investment property as a separate line item on the statement of financial position.

The Target Company as a lessor (upon application of HKFRS 16 in accordance with transitions in Note 3)

Classification and measurement of leases

Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Leases for which the Target Company is a lessor are classified as operating leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Target Company's ordinary course of business are presented as revenue.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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.

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

Retirement benefit scheme contribution

Payable to retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognized as expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages, salaries and annual leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from (loss) profit before taxation as reported in the statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

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 in which the liability is settled or the asset is realized, based on tax rates (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 Company expects, at the end of each reporting period, to recover or settle the carrying amounts 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 by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income ("OCI") or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Target Company considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the 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 of goods or services, or for administrative purposes are carried at cost, less any recognized 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 and, for qualifying assets, borrowing costs capitalized in accordance with the Target Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Target Company makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" (before application of IFRS 16) or "right-of-use assets" (after application of IFRS 16) in the statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the costs (other than properties under construction) less their residual values over their 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.

An item of property, plant and equipment is derecognized 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, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the profit or loss in the period which the item is derecognized.

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

At the end of each reporting period, the Target Company reviews the carrying amounts of its impairment on property, plant and equipment and right-of-use assets to determine whether there is any indication that those 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 and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 (or the CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the

Target Company compares the carrying amount of the CGU, including the carrying amounts of the corporate assets or portion of corporate assets allocated to the CGU, with the recoverable amount of the CGU. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of the assets on a pro-rata basis based on the carrying amount of each asset in the CGU. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the CGU. An impairment loss is recognized immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using weighted average cost formula. Net realizable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

Financial instruments (before the adoption of IFRS 9 as at January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

Financial assets

The Target Company's financial assets are classified as receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized and derecognized on the trade date, i.e., the date that the Target Company commits to purchase or sell the asset.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (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, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, trade receivables, amounts due from related parties and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any identified impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Target Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from related parties, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance accounts are recognized in profit or loss. When a trade and other receivables and an amounts due from related party is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortized cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Target Company 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 instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities (including trade and other payables, amounts due to related parties and bank and other loans) are subsequently measured at amortized cost, using the effective interest method.

Derecognition

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

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

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial instruments (under IFRS 9 on or after January 1, 2018)

Financial assets and financial liabilities are recognized when the Target Company becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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 IFRS 15. 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 amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the reporting 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 or 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 amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment under ECL model

The Target Company recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including other receivables, trade receivables, amounts due from related parties, deposits in Administrator account, cash and cash equivalents). The amount of ECL is updated at the end of each reporting period 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, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the end of each reporting period. Assessments are done based on the Target Company'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 end of each reporting period as well as the forecast of future conditions.

The Target Company always recognizes lifetime ECL for trade receivables and amounts due from related parties arising from contracts with customers. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings except that significant balances are assessed individually.

For all other instruments, the Target Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood of risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

Definition of default

For internal credit risk management, the Target Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay all amounts due in accordance with the contractual terms.

Irrespective of the above, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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 following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of ECL

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 adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Target Company recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and amounts due from related parties where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

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

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

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

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 Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities at amortized cost, including trade and other payable, amounts due to related parties, and the restructuring debts, are initially measured at fair value, net of transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

Derecognition/modification of financial liabilities

The Target Company derecognizes financial liabilities when, and only when, the Target Company's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

The Target Company accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Target Company) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Target Company considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Company's accounting policies, which are described in Note 4, the Directors are required to make 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates 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 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 are as follows:

Key sources of estimation uncertainty

Useful life and impairment of property, plant and equipment

In determining whether an asset is impaired, the management requires an estimation of recoverable amount of an individual asset or the CGUs to which the asset belongs, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the assets, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset's value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the CGUs to which the assets belongs.

Changing the assumptions selected by management to determine the level of impairment, including product price, volume of sales and growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses as at December 31, 2017, 2018 and 2019 and June 30, 2020 were RMB400,540,000, RMB374,422,000, RMB344,305,000 and RMB332,935,000, respectively.

Estimated impairment of doubtful receivables

The Target Company recognizes lifetime ECL since January 1, 2018 for trade receivables assessing individually for debtors with significant balances or collectively using a provision matrix by appropriate groupings. In addition, the Target Company recognizes lifetime ECL for other receivables when there has been a significant increase in credit risk since initial recognition. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. Further details are included in Note 29.

Taxation

Determining tax provisions involves judgement on the future tax treatments of certain transactions. The Target Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account of all changes in tax legislations.

Due to the change of management team and the restructuring proposal for the Target Company in the past few years as set out in Note 1, the Directors has exercised judgement in estimating the outcome of the tax exposure. Should the tax losses and/or relevant allowance be approved by the local tax authorities, it would have a corresponding adjustments on other gains and losses, income tax payable as set out in Note 14.

6. REVENUE AND SEGMENT INFORMATION

During the Reporting Periods, the Target Company's revenue represents the amount received and receivable from the sales of goods to external customers arising from the sale of refined chemicals and rental of property, plant and equipment. The revenue is recognized at a point in time when the customers obtain control of the goods delivered. Rental income of property, plant and equipment from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

All sales from contracts with customers are for period of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information reported to the Directors, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance, focuses on types of goods delivered. Specifically, the Target Company's reportable segments under IFRS 8 are as follows:

Refined chemicals and rental segment: the purchase of coking chemicals from the third parties, and processing such coking chemicals into refined chemical products, as well as marketing and selling such refined chemicals and the leasing of its property, plant and equipment to the Hongye Chemical Enterprises.

The Target Company currently operates in one business segment. A single management team reports to the CODM who comprehensively manage the entire business. For the period from December 31, 2017 to June 30, 2020, there was only one business carried out by the Target Company and all of the Target Company's assets are derived and located in the PRC. Therefore, the Directors concluded that the Target Company is operated in a single reportable segment and no further analysis for segment information is presented.

The following is an analysis of the Target Company's revenue:

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income	–	–	–	–	1,659
Revenue from contract with customers					
Sale of refined chemicals	376,343	888,197	766,583	402,611	253,795
	376,343	888,197	766,583	402,611	255,454

7. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	1	–	1	–	36

8. OTHER EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss on bankruptcy restructuring *(note a)*	–	–	198,373	–	–
Loss on bankruptcy claims *(note b)*	30	20	–	–	–
Others	106	205	–	–	–
	136	225	198,373	–	–

Notes:

a. The debt of the Hongye Group Companies determined by the Court allocated to the Target Company by reference to the proportion of the capital contribution to the Hongye Group Companies on a pro-rata basis, in excess of the Target Company's own debt originally recorded.

b. Penalty interest and fine related to overdue debt.

9. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Debts waived *(note a)*	–	–	7,625	–	–
Impairment of property, plants and equipment	–	–	(6,121)	–	–
Others	4	123	551	31	27
	4	123	2,055	31	27

Note:

a. On June 30, 2020, the Hongye Chemical Enterprises and the Hongye Group Companies other than the Hongye Chemical Enterprises (the "Other Hongye Companies") entered into a waiver agreement to reiterate the waiver of the net balance as at December 31, 2019. Debt waived represents the waiver of the net amounts owing to the Other Hongye Companies.

10. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net impairment losses recognized in respect of:					
Trade and other receivables *(Note 19)*	5	100	11,927	–	–

11. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank loans	22,745	20,187	–	–	–

All interest charges have been suspended effective from September 28, 2018 onwards. Please refer to the Plan as set out in Note 1 for details.

12. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation is arrived at after charging:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Staff costs					
Salaries, wages and other benefits	5,922	6,490	7,030	3,385	3,836
Contributions to retirement benefits scheme	305	530	585	280	288
	6,227	7,020	7,615	3,665	4,124
Less: Capitalized in inventories	(798)	(6,272)	(7,615)	(3,665)	(4,113)
	5,429	748	–	–	11
Other items					
Depreciation of property, plant and equipment	27,189	27,555	27,725	13,874	13,804
Amortization of prepaid lease payment	533	430	–	–	–
Depreciation of right-of-use assets	–	–	645	323	323
Total depreciation and amortization	27,722	27,985	28,370	14,197	14,127
Less: Capitalized in inventories	(21,803)	(24,746)	(28,002)	(14,013)	(14,096)
	5,919	3,239	368	184	31
Cost of inventories recognized as an expense	397,233	762,571	814,002	354,200	299,023

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

During the Reporting Periods, no emolument was paid to the Directors, which include Qiao Wanfu who resigned on September 20, 2019, and Yang Fuli who was appointed on September 20, 2019.

Five highest paid individuals

The five highest paid individuals of the Target Company during the Reporting Periods included no director, whose emoluments are disclosed above. The emoluments in respect of the highest paid individuals during the Reporting Periods are as follows:

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, wages and other benefits	378	441	669	352	304
Contributions to retirement benefits scheme	30	33	33	17	3
	408	474	702	369	307

The remunerations of the five highest paid employees are within the following bands:

	Year ended December 31,			**Six months ended June 30,**	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Nil to HK$1,000,000	5	5	5	5	5

During the Reporting Periods, no amount was paid or payable by the Target Company to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office.

14. TAXATION

No provision for taxation in the PRC has been made as the Target Company has no taxable profit for the Reporting Periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for the Target Company is 25% for the Reporting Periods.

Taxation for the year/period can be reconciled to the (loss) profit before taxation per the statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss) profit before taxation	(65,212)	83,678	(298,773)	44,118	(45,073)
Tax at the PRC tax rate of 25%	(16,303)	20,920	(74,693)	11,030	(11,268)
Tax effect on:					
Non-deductible expenses	416	20	15,294	–	–
Unused tax losses and temporary differences not recognized	15,887	–	59,399	–	11,268
Utilisation of tax losses previously not recognized	–	(20,940)	–	(11,030)	–
Taxation for the year/period	–	–	–	–	–

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the Target Company has deductible temporary differences of approximately RMB5,000, RMB105,000, RMB12,032,000 and RMB12,032,000, respectively, which are mainly arising from impairment of trade and other receivables of the Target Company. No deferred tax asset has been recognized in relation to such temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilized.

The Directors resubmitted the tax filing to the relevant tax authorities for the past few years, however, the tax losses and relevant allowance cannot be ascertained up to the report date.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Machinery and equipment	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At January 1, 2017	124,621	286,960	365	40,069	452,015
Additions	–	14,143	5	5,661	19,809
Transfer from construction in progress	–	45,730	–	(45,730)	–
At December 31, 2017	124,621	346,833	370	–	471,824
Additions	–	1,432	5	–	1,437
At December 31, 2018	124,621	348,265	375	–	473,261
Additions	1,732	1,995	2	–	3,729
At December 31, 2019	126,353	350,260	377	–	476,990
Additions	–	–	–	2,434	2,434
At June 30, 2020	126,353	350,260	377	2,434	479,424
Depreciation and impairment					
At January 1, 2017	4,830	39,123	142	–	44,095
Depreciation	4,736	22,405	48	–	27,189
At December 31, 2017	9,566	61,528	190	–	71,284
Depreciation	4,736	22,789	30	–	27,555
At December 31, 2018	14,302	84,317	220	–	98,839
Depreciation	4,779	22,923	23	–	27,725
Impairment	–	6,121	–	–	6,121
At December 31, 2019	19,081	113,361	243	–	132,685
Depreciation	2,401	11,396	7	–	13,804
At June 30, 2020	21,482	124,757	250	–	146,489
Carrying amounts					
At December 31, 2017	115,055	285,305	180	–	400,540
At December 31, 2018	110,319	263,948	155	–	374,422
At December 31, 2019	107,272	236,899	134	–	344,305
At June 30, 2020	104,871	225,503	127	2,434	332,935

The above items of property, plant and equipment, other than construction in progress, after taking into account their estimated residuals, are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Machinery and equipment	5–30 years
Office equipment	2–15 years

Details of the pledged property, plant and equipment are set out in Note 30.

All leasehold land and buildings are located in the PRC.

16. RIGHT-OF-USE ASSETS

	Leasehold lands
	RMB'000
Carrying amount as at January 1, 2019	29,401
Depreciation charge	(645)
As at December 31, 2019	28,756
Depreciation charge	(323)
As at June 30, 2020	28,433

17. PREPAID LEASE PAYMENTS

Movements in the prepaid lease payments, which represent land use rights in the PRC, during the Reporting Periods are analyzed as follows:

	Year ended December 31,	
	2017	**2018**
	RMB'000	*RMB'000*
At the beginning of the reporting period	30,364	29,831
Released to profit or loss	(533)	(430)
At the end of the reporting period	29,831	29,401
Analyzed for reporting purpose as:		
Non-current assets	29,401	28,756
Current assets	430	645

18. INVENTORIES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	19,571	30,156	31,887	25,927
Finished goods	15,690	41,559	34,363	40,724
	35,261	71,715	66,250	66,651

19. OTHER RECEIVABLES/TRADE RECEIVABLES

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	100	254,375	12,027	14,011
Less: impairment	–	(100)	(12,027)	(12,027)
	100	254,275	–	1,984
Prepayments for raw materials	5,988	44,670	14,883	14,969
Other deposits and other receivables	5	25	73	73
Deductible input Value Added Tax and prepaid other taxes and charges	49,222	13,716	6,032	9,280
Less: impairment	(5)	(5)	(5)	(5)
	55,210	58,406	20,983	24,317

Aging of trade receivables net of allowance for bad debts based on invoice dates, which approximated the respective revenue recognition dates, are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	–	3	–	56
1 to 3 months	–	–	–	1,928
3 to 6 months	100	254,272	–	–
	100	254,275	–	1,984

The table below is analysis of trade receivables as at December 31, 2017 under IAS 39:

	As at December 31, 2017
	RMB'000
Not past due and not impaired	–
Past due but not impaired	100
Total trade receivables	100

Starting from January 1, 2018, the Target Company applied the expected credit losses prescribed by IFRS 9, and the impairment methodology of ECL model is set out in Note 29.

The movements in the allowance for doubtful debts are as follows:

	Year ended December 31,			**Six months ended June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the reporting period	–	5	105	12,032
Impairment losses recognized on receivables	5	100	11,927	–
At the end of the reporting period	5	105	12,032	12,032

20. CASH AND CASH EQUIVALENTS

Bank balances carried interest at market interest rate ranging from 0.3% to 0.35% per annum as at December 31, 2017, 2018 and 2019 and June 30, 2020, respectively. Bank balances and cash as at December 31, 2017, 2018 and 2019 and June 30, 2020 were denominated in RMB.

	As at December 31,			**As at June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	6	155	3,448	2,538

21. BANK AND OTHER LOANS

The analysis of the carrying amount of bank and other loans is as follows:

	As at December 31, 2017	2018	2019	As at June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– secured	437,974	–	–	–

At the end of each reporting period, the bank and other loans were payable as follows:

	As at December 31, 2017	2018	2019	As at June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	437,974	–	–	–

Analyzed for reporting purpose as:

	As at December 31, 2017	2018	2019	As at June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities	437,974	–	–	–

The bank and other loans carry interest at the rates ranging from 4.35% to 8.55% per annum.

In 2017, the Target Company breached the covenants in a loan agreement, which are primarily related to the debt-equity ratio of the Target Company. The carrying amounts of bank and other loans that are repayable on demand due to breach of loan covenants were shown under current liabilities.

According to the judgment made by the Court on September 28, 2018, all bank and other loans were reclassified to restructuring debt as set out in Note 22.

22. RESTRUCTURING DEBTS

	December 31, 2018	December 31, 2019	June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*
Taxes payable *(note a)*			
– trade and other payables	1,002	1,002	–
Secured and unsecured debts confirmed by the Administrators *(note b and c)*			
– trade and other payables	29,077	25,586	21,956
– bank and other loans *(Note 21)*	457,810	276,988	276,988
	486,887	302,574	298,944
Unconfirmed debts by the Administrators *(note d)*			
– trade and other payables	83,069	83,069	83,069
	570,958	386,645	382,013

Restructuring debts represent indebtedness entering into adjudication process effective from September 28, 2018 and the debts affirmed by the Court on July 31, 2019 after due adjudication by the Administrators.

According to the Plan disclosed in Note 1, the adjudicated indebtedness below is to be settled based on the payment sequence and ratio stipulated in the Plan, using the funds injected by the Shunri Xinze, with the balance to be discharged upon the completion of such payment and the Court's affirmation of such completion. The relevant indebtedness includes:

(a) the taxes payable and salaries payable which will be paid in full;

(b) secured debts, if any, will be paid at a percentage of the realized value of the pledged assets and the unpaid portion will be fulfilled together with other unsecured debts;

(c) unsecured debts less than RMB200,000 which will be paid in full and unsecured debts more than RMB200,000 which will be paid at ratio of 11.13% according to the Plan; and

(d) unconfirmed debts, which consist of debts pending for endorsement by creditors and the Court as well as potential creditor claims yet to be received, will be paid in accordance with the Plan for the similar indebtedness.

The total estimated indebtedness affirmed by the Court is approximately RMB570,958,000 as at September 28, 2018. As disclosed in Note 32, the Court affirmed on September 27, 2020 the completion of the Plan including the payment made by Shunri Xinze in September 2019, out of which the Administrators paid the debts claimants in accordance with the Plan. The resulting gain of RMB369,331,000, being the balance of the indebtedness waived and discharged in line with the Plan, is considered by the Directors as an non-adjusting subsequent event. As of the date of September 27, 2020, the balance of fund in Administrator account amounted to RMB12,690,000.

23. TRADE AND OTHER PAYABLES

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	23,356	–	42,426	197,996
Payables for construction in progress	3,980	–	–	–
Other payables and accruals	11,064	2,414	6,048	12,126
	38,400	2,414	48,474	210,122

Trade and other payables are generally expected to be settled within one year.

The following is an aging analysis of trade payables based on the invoice date at the end of each reporting period:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	9,195	–	41,270	81,115
4 to 6 months	826	–	1,065	90,432
7 to 12 months	3,761	–	91	26,449
1–2 years	4	–	–	–
2–3 years	9,543	–	–	–
More than 3 years	27	–	–	–
	23,356	–	42,426	197,996

According to the judgment made by the court on September 28, 2018, the carrying value of trade and other payables as at September 28, 2018 were reclassified to restructuring debt as set out in Note 22.

24. SHARE CAPITAL

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Presented in the statements of financial position as:	300,000	300,000	300,000	300,000

25. RESERVES

Capital reserve

In 2018, the change of capital reserve represent:

a. the capital contribution amounting RMB403,476,000 from Hongye Chemical in accordance with a shareholder agreement with Hongye Chemical dated July 5, 2018;

b. the net amount owning to the Target Company of RMB258,315,000 waived according to the waiver agreements within the Hongye Group Companies which was accounted for as a deemed capital reduction and recognized in capital reserve.

In 2019, the addition of capital reserve represents capital injection amounting to RMB400,000,000 from Shunri Xinze as set out in Note 1 and 22.

Safety fund

Pursuant to relevant PRC regulation, the Target Company is required to transfer from 0.2% to 4% of revenue generated from sales of refined chemicals for the periods. The Target Company is required to make a transfer for the provision of safety fund from retained profits to a specific reserve. The safety fund could be utilized when expenses or capital expenditures on safety operation or measures are incurred. The amount of safety fund utilized would be transferred from the specific reserve back to retained profits.

26. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labor rules and regulations in the PRC, the Target Company participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities whereby the Target Company is required to make contributions to the Schemes based on applicable rates. The municipal government authorities are responsible for the entire pension obligations payable to retired employees.

The Target Company has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

27. RELATED PARTY TRANSACTIONS AND BALANCES

Prior to September 20, 2019, the following entities were considered as the related companies of the Target Company:

Name of related party	Relationship with the Target Company
洪業化工集團股份有限公司 (Hongye Chemical Group Co., Ltd)	Ultimate holding company in Other Hongye Companies
山東洪業如松化工設備安裝有限公司 (Shandong Hongye Rusong Chemical Equipment Installation Co., Ltd)	*note b*
山東吉昌化工有限責任公司 (Shandong Jichang Chemical Co., Ltd)	*note b*
菏澤開發區洪源小額貸款有限公司 (Heze Development Zone Hongyuan Small Loan Co., Ltd)	*note b*
菏澤市洪源供水有限公司 (Heze Hongyuan Water Supply Co., Ltd)	*note b*
菏澤洪方商貿有限公司 (Heze Hongfang Trading Co., Ltd)	*note b*
上海洪魯國際貿易有限公司 (Shanghai Honglu International Trade Co., Ltd)	*note b*
上海多凱國際貿易有限公司 (Shanghai Duokai International Trade Co., Ltd)	*note b*
上海洪魯化工技術有限公司 (Shanghai Honglu Chemical Technology Co., Ltd)	*note b*
山東天秀化工貿易有限公司 (Shandong Tianxiu Chemical Trade Co., Ltd)	*note b*
山東吉安化工有限公司 (Shandong Ji'an Chemical Co., Ltd)	*note b*
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary in Hongye Chemical Enterprises
山東方明藥業集團股份有限公司 (Shandong Fangming Pharmaceutical Group Co., Ltd)	*note c*
菏澤市方明製藥有限公司 (Heze Fangming Pharmaceutical Co., Ltd)	*note c*
上海眾諾國際貿易有限公司 (Shanghai Zhongnuo International Trade Co., Ltd)	*note c*
山東方明邦嘉製藥有限公司 (Shandong Fangming Bangjia Pharmaceutical Co., Ltd)	*note c*
東明縣洪方化工科技服務有限公司 (Dongming Hongfang Chemical Technology Service Co., Ltd)	*note c*
菏澤堯舜牡丹生物科技有限公司 (Heze Yaoshun Peony Biotechnology Co., Ltd)	*note c*
菏澤堯舜酒店管理有限公司 (Heze Yaoshun Hotel Management Co., Ltd)	*note c*

Name of related party	Relationship with the Target Company
菏澤市中小企業融資擔保有限公司 (Heze SME Financing Guarantee Co., Ltd)	*note c*
山東洪方精細化工有限公司 (Shandong Hongfang Fine Chemical Co., Ltd)	*note c*
山東東藥藥業股份有限公司 (Shandong Dongyao Pharmaceutical Co., Ltd)	*note c*
菏澤萊佛生物科技有限公司 (Heze Laifo Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
菏澤百奧靈生物科技有限公司 (Heze Baiaoling Biotechnology Co., Ltd) (Cancelled in 2017)	*note c*
山東洪豐麵粉有限公司 (Shandong Hongfeng Flour Co., Ltd)	*note c*
開封天池化工有限公司 (Kaifeng Tianchi Chemical Co., Ltd)	*note c*

Note a: According to the Plan set out in Note 1, certain entities ceased to be a related company of the Target Company from September 20, 2019 onwards.

Note b: Fellow subsidiary in the Other Hongye Companies.

Note c: Entity controlled by the then ultimate beneficial owner in the Other Hongye Companies.

Note d: According to the Plan, the related party balances as at September 28, 2018 were waived within the Hongye Group Companies.

Subsequent to September 20, 2019, the following entities were considered as the related companies of the Target Company.

Name of related party	Relationship with the Target Company
中國信達資產管理股份有限公司 (China Cinda)	Ultimate holding company
蕪湖順日信澤股權投資合夥企業(有限合夥) (Shunri Xinze)	Immediate holding company
山東東巨化工股份有限公司 (Dongju Chemical)	Fellow subsidiary
山東恒順供熱有限公司 (Hengshun Heat Supply)	Fellow subsidiary
山東洪達化工有限公司 (Hongda Chemical)	Fellow subsidiary
山東方明化工股份有限公司 (Fangming Chemical)	Fellow subsidiary
山東洪鼎化工有限公司 (Hongding Chemical)	Fellow subsidiary

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

Other than the transactions disclosed in Notes 1, 22 and 25 in the Historical Financial Information, the Target Company entered into the following material related party transactions:

(a) Transactions with related parties

	Year ended December 31,			Six months ended June 30,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchases of goods from					
– Fellow subsidiaries	102,250	174,231	206,212	95,297	84,879
– Other Hongye Companies	524,221	18,885	–	–	–
Sales of goods to					
– Fellow subsidiaries	264,105	151,015	104,994	327	245,639
– Other Hongye Companies	112,238	–	–	–	–
Administrative fee to					
– Other Hongye Companies	4,546	8,563	5,246	–	–
Rental revenue					
– Fellow subsidiary	–	–	–	–	1,659

The above related party transactions were conducted in accordance with terms of the relevant agreements.

(b) Balances with related parties

At the end of each reporting period, the Target Company had the following balances with related parties:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
Trade nature				
– Fellow subsidiaries	338,004	1,464	229,967	356,388
– Other Hongye Companies	169	–	–	–
	338,173	1,464	229,967	356,388
Analyzed for reporting purposes as:				
Current portion	338,173	1,464	229,967	356,388

Aging of amounts due from related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	–	1,464	37,647	58,201
1 to 3 months	–	–	–	81,778
3 to 6 months	171	–	9,792	95,697
6 to 12 months	289,774	–	182,528	–
1 to 2 years	48,227	–	–	120,712
2 to 3 years	1	–	–	–
	38,173	1,464	229,967	356,388

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to related parties				
Non-trade nature				
– Fellow subsidiaries	–	330	–	–
– Other Hongye Companies	93,410	–	–	–
	93,410	330	–	–
Trade nature				
– Fellow subsidiaries	134,521	47,261	5,810	8,435
– Other Hongye Companies	214,780	–	–	–
	349,301	47,261	5,810	8,435
Analyzed for reporting purposes as:				
Current portion	442,711	47,591	5,810	8,435

Aging of amounts due to related parties-trade nature are as follows:

	As at December 31,			As at June 30,
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one month	9,053	47,261	5,810	8,383
1 to 3 months	–	–	–	29
3 to 6 months	102,667	–	–	23
6 to 12 months	237,581	–	–	–
	349,301	47,261	5,810	8,435

28. CAPITAL MANAGEMENT

The Target Company's primary objectives of managing capital are to safeguard the Target Company's ability to continue as a going concern, and to provide returns for shareholders and benefits for other stakeholders, by securing access to finance at a reasonable cost.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings, and makes adjustments to the capital structure in light of changes in economic conditions.

Based on recommendations of the board of directors, the Target Company will balance its overall capital structure through adjusting the amount of dividends paid to shareholders, issues of new shares, raise new debt financing or selling assets to reduce debt. During the Reporting Periods, the objectives, policies or processes were changed from July 31, 2019 onwards, upon the engagement of the Risun Chemicals as the operation agent as per agreement.

The Target Company monitors capital with reference to its debt position. The Target Company's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligation.

29. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of each reporting period are set out as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Target Company				
Financial assets				
Loans and receivables (including cash and cash equivalents)	338,279	–	–	–
Financial assets at amortized cost	–	255,914	250,805	373,668
Financial liabilities				
Financial liabilities at amortized cost	914,290	617,785	438,979	599,365

Financial risk management objectives and policies

The Target Company's major financial instruments include trade receivables, other receivables, amounts due from related parties, deposit in Administrator account, cash and cash equivalents, trade and other payables, restructuring debts, amounts due to related parties, and bank and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. From July 31, 2019 onwards, the management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

For the year ended December 31, 2019 and the period ended June 30, 2020, the Director(s) consider that the interest rate risk of the Target Company is limited as the finance charges has been suspended. Please refer to the Plan as set out in Note 1 for details.

Due to incomplete record, change of management team and the Plan as set out in Note 1, in management's opinion, the disclosures of interest rate risk for the years ended December 31, 2017 and 2018 are unrepresentative as the year-end exposure does not reflect the exposure of the Target Company during the relevant years. Thus, no disclosures were prepared.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Company's counterparties default on their contractual obligations resulting in financial losses to the Target Company. The Target Company's credit risk exposures are primarily attributable to trade receivables, other receivables, cash and cash equivalents, amounts due from related parties and deposit in Administrator account. The Target Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

At the end of each reporting period, other than financial assets whose carrying amounts best represent the maximum credit risk, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company arising from the amount of contingent liabilities disclosed in Note 31.

In order to minimize the credit risk, the Target Company mainly conducted transactions with customers with good quality, when accepting new customers, the Target Company requests advanced payment before the goods delivered.

To manage risk arising from bank balances, the Target Company mainly transacts with state-owned or reputable financial institutions in PRC. There has been no recent history of default in relation to these financial institutions. Therefore the management of the Target Company considers the credit risk arising from cash and cash equivalents is insignificant.

For trade receivables and amounts due from related parties of trade nature, the Target Company has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The ECL on these assets are assessed individually for debtors with significant or credit-impaired balances or collectively using a provision matrix by appropriate groupings. As part of the Target Company's credit risk management, the Target Company uses debtors' aging to assess the impairment for its customers because its customers share common risk characteristics that are representative of the customers' abilities to pay the amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted using forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management to ensure relevant information about specific debtors is updated.

For all other instruments including, other receivables, deposit in Administrator account and amounts due from related parties of non-trade nature, the Target Company measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognizes lifetime ECL. The Target Company has assessed and concluded that the risk of default rate for these instruments are steady based on the Target Company's assessment of the financial health of the counterparties.

The tables below detail the credit risk exposures of the Target Company's trade and other receivables, deposit in Administrator account and amounts due from related parties, which are subject to ECL assessment:

	Notes	**Internal credit rating**	**12-month or lifetime ECL**	**December 31, 2018 Gross carrying amount**		**December 31, 2019 Gross carrying amount**		**June 30, 2020 Gross carrying amount**	
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortised cost									
Other receivables	19	*Note*	12-month ECL	20		68		68	
			Credit-impaired (individually)	5	25	5	73	5	73
Deposit in administrator account	22	*Note*	12-month ECL	–	–	17,322	17,322	12,690	12,690
Amounts due from related parties	27	*Note*	12-month ECL	–		–		1,659	
			Not Credit-impaired (individually)	1,464	1,464	229,967	229,967	354,729	356,388
Trade receivables	19	*Note*	Not Credit-impaired (individually)	–		–		1,984	
			Lifetime ECL (provision matrix)	254,275		–		–	
			Credit-impaired (individually)	100	254,375	12,027	12,027	12,027	14,011

Note: These balances are unsecured and with no fixed repayment terms. Set out below is the impairment provision of the financial assets.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables and amounts due from related parties of trade nature under the simplified approach:

	Lifetime ECL (not credit impaired)	**Lifetime ECL (credit impaired)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2018	–	–	–
– Impairment losses recognized	–	100	100
At December 31, 2018	–	100	100
– Impairment losses recognized	–	11,927	11,927
At December 31, 2019 and June 30, 2020	–	12,027	12,027

The credit risk of trade receivables based on the Target Company's provision matrix was insignificant.

The trade receivables with gross carrying amounts of RMB100,000, RMB12,027,000 and RMB12,027,000 as at December 31, 2018, December 31, 2019 and June 30, 2020, respectively, were assessed individually, and impairment allowance of RMB100,000, RMB12,027,000 and RMB12,027,000 were made on these debtors.

The loss allowances of approximate RMB5,000 have been recognized for other receivables as at the end of each reporting periods.

Liquidity risk

The Directors are responsible for cash management of the Target Company, including the raising of loans to cover expected cash demands. The Target Company's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

At the end of each reporting period, almost all remaining contractual maturities of the Target Company's financial liabilities were within one year.

Fair values

Fair values of financial instruments carried at amortized cost

Except for the fair values of the restructuring debts, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information of the Target Company approximate their fair values due to short maturity or with floating interest rates. The fair value of restructuring debts amounting to RMB17,314,000 and RMB12,682,000 as at December 31, 2019 and June 30, 2020, respectively, are evaluated based on the future cash flow of restructuring debts in accordance with the Plan and the investment agreement.

30. PLEDGE OF ASSETS

At the end of each reporting period, certain assets were pledged to secure banking facilities granted to the Target Company and their carrying amounts are as follows:

	As at December 31,			**As at June 30,**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	159,488	116,686	–	–
Prepaid lease payments	29,477	28,837	–	–
	188,965	145,523	–	–

According to the judgment made by the Court on July 31, 2019, all assets pledged to the financial institutions were released during the year of 2019.

31. CONTINGENT LIABILITIES

Undeclared claims of the Target Company

According to the Plan, the undeclared creditors, of which no provision was made by the Target Company, will have right to request payment within two years after the completion of the Plan on September 27, 2020. The Directors believe, based on the indemnity provided by Heze Jinda that further payment to be made by the Target Company is remote and therefore no further provision is required.

32. EVENTS AFTER REPORTING PERIODS

As disclosed in Note 22, the Court affirmed the completion of the Plan on September 27, 2020.

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to June 30, 2020.

INTRODUCTION

The unaudited pro forma financial information of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared to illustrate the effect of the proposed acquisition of partnership interests in Target Group (the "Proposed Acquisition") as if the Proposed Acquisition had been completed on June 30, 2020.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at June 30, 2020 as extracted from the published unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2020 and the audited consolidated statements of financial position of the Target Group as at June 30, 2020 as extracted from the accountants' reports set out in Appendix IIA to this circular, after making pro forma adjustments relating to the Proposed Acquisition.

The Unaudited Pro Forma Financial Information is based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Proposed Acquisition that are (i) directly attributable to the transactions and (ii) factually supportable as if the Proposed Acquisition had been completed on June 30, 2020, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "Directors") in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed in any future periods or on any future dates. The Unaudited Pro Forma Financial Information should be read in conjunction with the condensed consolidated financial statements of the Group as set out in the published unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2020 and other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT JUNE 30, 2020

			Pro forma Adjustments			
	The Group as at June 30, 2020	Target Group as at June 30, 2020	Acquisition adjustments	Elimination of amount due from/to Target Group	Estimated transaction costs	Unaudited pro forma for the Enlarged Group as at June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
ASSETS						
Non-current assets						
Property, plant and equipment	10,503,978	3,619,453	55,077	–	–	14,178,508
Right-of-use assets	1,122,295	305,416	5,073	–	–	1,432,784
Goodwill	31,808	–	417,288	–	–	449,096
Other intangible assets	70,537	224,775	240,225	–	–	535,537
Interests in associates	325,053	–	–	–	–	325,053
Interests in joint ventures	1,216,703	–	–	–	–	1,216,703
Other long term receivables and prepayments	1,640,543	72,761	(1,350,000)	–	–	363,304
Financial assets at fair value through profit or loss ("FVTPL")	181,745	–	–	–	–	181,745
Deferred tax assets	233,039	–	–	–	–	233,039
Restricted bank balances	20,000	–	–	–	–	20,000
	15,345,701	4,222,405	(632,337)	–	–	18,935,769
Current assets						
Inventories	1,097,112	407,374	–	–	–	1,504,486
Income tax prepayments	18,506	–	–	–	–	18,506
Other receivables and prepayments	1,876,097	178,671	–	(197,644)	(3,580)	1,853,544
Trade receivables measured at amortized cost	–	21,259	–	–	–	21,259
Trade and bills receivables measured at fair value through other comprehensive income ("FVTOCI")	1,092,805	538,586	–	(429,965)	–	1,201,426
Amounts due from related parties	440,457	–	–	–	–	440,457
Financial assets at FVTPL	34,009	–	–	–	–	34,009
Restricted bank deposits	1,513,323	272	–	–	–	1,513,595
Bank balances and cash	929,424	9,957	(350,000)	–	(8,807)	580,574
Deposit in administrator account	–	277,598	–	–	–	277,598
	7,001,733	1,433,717	(350,000)	(627,609)	(12,387)	7,445,454

			Pro forma Adjustments			
	The Group as at June 30, 2020	Target Group as at June 30, 2020	Acquisition adjustments	Elimination of amount due from/to Target Group	Estimated transaction costs	Unaudited pro forma for the Enlarged Group as at June 30, 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Current liabilities						
Financial liabilities at FVTPL	530	–	–	–	–	530
Trade and other payables	3,783,720	652,681	63,000	(627,609)	–	3,871,792
Contract liabilities	733,204	7,737	–	–	–	740,941
Dividends payable	156,238	–	–	–	–	156,238
Income tax payable	202,171	208,992	–	–	–	411,163
Bank and other loans	8,324,847	–	–	–	–	8,324,847
Lease liabilities	20,350	–	–	–	–	20,350
Amounts due to related parties	176,919	–	–	–	–	176,919
Restructuring debts	–	242,206	–	–	–	242,206
	13,397,979	1,111,616	63,000	(627,609)	–	13,944,986
Net current liabilities	(6,396,246)	322,101	(413,000)	–	(12,387)	(6,499,532)
Total assets less current liabilities	8,949,455	4,544,506	(1,045,337)	–	(12,387)	12,436,237
Non-current liabilities						
Financial liabilities at FVTPL	14,275	–	–	–	–	14,275
Bank and other loans	1,718,334	–	–	–	–	1,718,334
Lease liabilities	15,892	–	–	–	–	15,892
Deferred income	85,997	–	–	–	–	85,997
Trade and other payables	76,755	–	3,151,000	–	–	3,227,755
Deferred tax liabilities	39,258	273,075	75,094	–	–	387,427
	1,950,511	273,075	3,226,094	–	–	5,449,680
Net assets	6,998,944	4,271,431	(4,271,431)	–	(12,387)	6,986,557

Notes:

1. The information of the consolidated financial position of the Group is extracted from the published unaudited condensed consolidated financial statements of the Group for the six months ended June 30, 2020.

2. The information of the consolidated financial position of the Target Group as at June 30, 2020 is extracted from the accountants' reports of the Target Group as set out in Appendix IIA of this circular.

3. As per Interests Transfer Agreement signed by the Group and Cinda Parties, upon the First Completion, Risun Chemicals shall be entitled to appoint three out of five voting rights in investment decision-making committee, i.e. the ultimate decision-making authority of Shunri Xinze and has unilaterally power over relevant activities of the Target Group. Hence, Risun Chemicals will control the Target Group upon the First Completion. The pro forma financial information illustrates the financial outcome as if the First Completion is on June 30, 2020.

   For the purpose of preparing the unaudited pro forma financial information, the Directors assumed that with the exception of goodwill, property, plant and equipment, right-of-use assets and other intangible assets (details set out below), the carrying amounts of the remaining identifiable assets and liabilities of the Target Group approximate to their fair value as at June 30, 2020.

   The Group has applied the acquisition method in accordance with IFRS 3 "Business Combination" to account for the Proposed Acquisition as if the Proposed Acquisition had been completed on June 30, 2020, and the calculation of pro forma goodwill is as follows:

	RMB'000
Consideration of the Proposed Acquisition *(note i)*	4,851,000
Adjustment to Consideration *(note ii)*	63,000
Less:	
Net assets of the Target Group as at June 30, 2020	4,271,431
Unaudited pro forma fair value adjustments *(note iii)*	225,281
Pro forma goodwill arising from the Proposed Acquisition	417,288

Note (i): Pursuant to Interests Transfer Agreement signed by the Risun Chemicals and Cinda Parties, the total consideration of RMB4,851,000,000 ("Transfer Price") will be paid by Risun Chemicals in installments.

	RMB'000
Offset by deposits paid	
Effective date of Interests Transfer Agreement	1,350,000
To pay in cash	
Within three working days after effective date of Interests Transfer Agreement	350,000
On or before September 15, 2023	1,575,000
On or before September 15, 2024	1,576,000
	4,851,000

For the purpose of unaudited pro forma financial information, the Directors assumed that the last two tranches would be paid on September 15, 2023 and September 15, 2024, respectively.

According to the Interests Transfer Agreement, upon the First Completion, 30% of partnership interests shall be legally transferred to Risun Chemicals, and Cinda Parties have only contractual right to receive fixed returns (i.e. the aggregate unpaid amounts agreed in Interest Transfers Agreement) through their partnership interests of 70% (i.e. 69.98% LP Interests and 0.02% GP Interests). The Group has an obligation rather than an option to pay the remaining Transfer Price and acquire the remaining 70% of partnership interests. Therefore, when the Group obtains the control over the Target Group, the partnership interests held by Cinda Parties would be accounted for as financial liabilities in accordance with International Accounting Standard 32 "Financial Instruments: Presentation", instead of the non-controlling interest in the consolidated financial statement of the Enlarged Group, and the remaining Transfer Price of RMB3,151,000,000, bearing interest at 10% per annum, would be accounted for as long-term payables of the Enlarged Group accordingly given its financing nature.

Note (ii): According to Interests Transfer Agreement, the Group agreed to pay a compensation payment of RMB63,000,000 as an adjustment to the consideration.

Note (iii): For the purpose of preparation of the Unaudited Pro Forma Financial Information, the fair value of the Target Group's property, plant and equipment, right-of-use assets and other intangible assets set out below has been estimated based on the valuation prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the independent professional valuer not connected with the Group as if the Proposed Acquisition had been completed on June 30, 2020.

	Carrying amounts	**Fair value**	**Unaudited pro forma fair value adjustments**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	3,619,453	3,674,530	55,077
Right-of-use assets	305,416	310,489	5,073
Other intangible assets	224,775	465,000	240,225
			300,375
Deferred tax liabilities arising from pro forma fair value adjustments at income tax rate of 25%			(75,094)
			225,281

Included in the fair value of intangible assets is a coke production quota granted by local authority to the Target Group in June 2020 which was not recognised as an intangible asset on the consolidated statement of financial position of the Target Group and results in a pro forma fair value adjustment of RMB218,000,000.

Deferred tax liabilities relating to the above pro forma fair value adjustments are calculated at the income tax rate of 25%.

In addition, as stated in Note 20 to the accountants' report of the Target Group, the unused tax losses and deductible temporary difference of the Target Group as at June 30, 2020 are pending for the confirmation by the local tax authorities and therefore no deferred tax asset has been recognised due to the unpredictability of the confirmation. Should the new information become available within the measurement period which shall not exceed one year from the acquisition date, deferred tax assets will be recognised and the carrying amount of the goodwill will be reduced accordingly.

The Directors would like to draw attention to the fact that 1) the fair value of the identifiable assets acquired and liabilities assumed of the Target Group are subject to changes on the actual completion of the Proposed Acquisition due to the fair value assessment of the net assets, which may differ materially from the amounts disclosed above; and 2) goodwill arising on the Proposed Acquisition, if any, represents the excess of the fair value of the consideration over the fair value of the identifiable assets and liabilities of the Target Group to be acquired by the Group, which in turn will be determined based on facts and circumstances at the actual completion of the Proposed Acquisition. Accordingly, the goodwill recognised at the actual completion date of the Proposed Acquisition may be different from the pro forma goodwill presented above.

4. The adjustment represents the elimination of amounts due from the Target Group of RMB197,644,000 and amounts due to the Target Group of RMB429,965,000 as at June 30, 2020 recorded by the Group.

5. The adjustment represents the estimated transaction costs, mainly comprise professional fees of approximately RMB3,580,000 prepaid as at June 30, 2020 and RMB8,807,000 to be paid in cash by the Company in connection with the Proposed Acquisition.

6. Apart from the adjustment above, no other adjustments have been made to the unaudited pro forma financial information of the Enlarged Group to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to June 30, 2020.

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of China Risun Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Risun Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at June 30, 2020 and related notes as set out on pages III-1 to III-6 of the circular issued by the Company dated December 8, 2020 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-1 to III-6 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of partnership interests in Wuhu Shunri Xinze Equity Investment Partnership (LP) on the Group's financial position as at June 30, 2020 as if the transaction had taken place at June 30, 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed consolidated financial statements for the period ended June 30, 2020, on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at June 30, 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma 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:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

December 8, 2020

This Appendix summarises the business, financial results and other financial information of Shunri Xinze for the period from July 24, 2019 to December 31, 2019 and for the six months ended June 30, 2020.

BUSINESS AND FINANCIAL RESULTS OF SHUNRI XINZE

Financial indicators

The following table sets forth the financial ratios of Shunri Xinze as at the dates and for the periods indicated:

Financial indicators	**For the six months ended June 30, 2020**	**For the period from July 24, 2019 to December 31, 2019**
Gross profit/(loss) margin	0.7%	(3.7%)
Net (loss)/profit margin	(7.5%)	21.3%
	As at June 30, 2020	**As at December 31, 2019**
Gearing ratio	–	–

Note: The gearing ratio is calculated by dividing total interest-bearing borrowings by total equity as of the end of the period. Since the interest-bearing borrowings prior to the Restructuring Reference Date were paid and settled by the bankruptcy administrators, the ratios are nil for the two periods.

The following table sets forth the total revenue and gross profit by business segments (excluding inter-segment revenue):

	For the six months ended June 30, 2020	**For the period from July 24, 2019 to December 31, 2019**
	RMB'000	*RMB'000*
Sale of coke and coking chemicals	1,128,363	531,876
Sale of refined chemicals	632,315	417,987
Total revenue	1,760,678	949,863
Gross profit arising from the manufacturing of coke and coking chemicals	76,902	22,087
Gross loss arising from the manufacturing of refined chemicals	(65,451)	(56,836)
Total gross profit/(loss)	11,451	(34,749)

Revenue

Revenue increased by approximately RMB810.8 million or 85.4% from approximately RMB949.9 million during the period from July 24, 2019 to December 31, 2019 to approximately RMB1,760.7 million for the six months ended June 30, 2020, primarily due to increased revenue from coke and coking chemicals manufacturing business and refined chemicals manufacturing business.

Revenue from coke and coking chemicals manufacturing business increased by approximately RMB596.5 million or 112.1% from approximately RMB531.9 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB1,128.4 million for the six months ended June 30, 2020, primarily due to a significant increase in the sale volume of coke and coking chemicals, Shunri Xinze gained the control over the six Hongye Chemicals Enterprises on September 20, 2019 and since then consolidated the operating results of the six Hongye Chemicals Enterprises into the consolidated statement of profit or loss of Shunri Xinze. The statement of profit or loss of Shunri Xinze for the period from July 24, 2019 to December 31, 2019 includes operating result of only about 3 months, while the period for the six months ended June 30, 2020 includes 6 months (the "**consolidation months reason**").

Revenue from refined chemicals manufacturing business increased by approximately RMB214.3 million or 51.3% from approximately RMB418.0 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB632.3 million for the six months ended June 30, 2020, primarily due to a significant increase in the sale volume of caprolactam and nylon 6 chips caused by the consolidation months reason.

Shunri Xinze gained the control over the six Hongye Chemicals Enterprises on September 20, 2019 and since then consolidated the operating results of the six Hongye Chemicals Enterprises into the consolidated statement of profit or loss of Shunri Xinze (which is the consolidation months reason).

Cost of sales

Cost of sales increased by approximately RMB764.6 million or 77.7% from approximately RMB984.6 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB1,749.2 million for the six months ended June 30, 2020, primarily due to increased cost of sales from the coke and coking chemicals manufacturing business and refined chemicals manufacturing business.

Cost of sales from the coke and coking chemicals manufacturing business increased by approximately RMB541.7 million or 106.3% from approximately RMB509.8 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB1,051.5 million for the six months ended June 30, 2020, primarily due to a significant increase in the sale volume of coke and coking chemicals caused by the consolidation months reason.

Cost of sales from the refined chemical manufacturing business increased by approximately RMB222.9 million or 47.0% from approximately RMB474.8 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB697.8 million for the six months ended June 30, 2020, primarily due to a significant increase in the sale volume of caprolactam and nylon 6 chips caused by the consolidation months reason.

Gross profit and gross profit margin

The Target Group's total gross profit increased by approximately RMB46.2 million from gross loss of approximately RMB34.7 million for the period from July 24, 2019 to December 31, 2019 to gross profit of approximately RMB11.5 million for the six months ended June 30, 2020. Gross profit margin increased from -3.7% for the period from July 24, 2019 to December 31, 2019 to 0.7% for the six months ended June 30, 2020, representing the improvement of profitability under Risun's operation and management.

Gross profit from the coke and coking chemicals manufacturing business increased by approximately RMB54.8 million from approximately RMB22.1 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB76.9 million for the six months ended June 30, 2020, primarily due to increase in sale volume of coke and coking chemicals and the larger spread between the coke selling price and the coking coal procurement price.

Gross loss from the refined chemicals manufacturing business increased by approximately RMB8.6 million or 15.1% from approximately RMB56.8 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB65.5 million for the six months ended June 30, 2020, primarily due to the increase in the sale volume of refined chemical products and the decrease in selling price of caprolactam and nylon 6 chips.

Other expense

Other expense increased by approximately RMB21.4 million or 87.3% from approximately RMB24.5 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB45.9 million for the six months ended June 30, 2020, primarily due to increase in expense on suspension of production caused by the consolidation months reason.

Other gains and losses

Other gains and losses decreased by approximately RMB309.0 million or 96.6% from approximately RMB319.8 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB10.7 million for the six months ended June 30, 2020, primarily due to the non-recurring gain on bargain purchase of RMB297.9 million arising from the acquisition of the six Hongye Chemicals Enterprises on September 20, 2019.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB9.7 million or 130.4% from approximately RMB7.4 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB17.1 million for the six months ended June 30, 2020, primarily due to a significant increase in the sale volume of coke and coking chemicals together with refined chemicals caused by the consolidation months reason.

Administrative expenses

Administrative expenses increased by approximately RMB36.5 million or 81.3% from approximately RMB44.9 million for the period from July 24, 2019 to December 31, 2019 to approximately RMB81.4 million for the six months ended June 30, 2020, primarily due to increased management service fee paid to Risun Chemicals caused by the consolidation months reason.

Profit/(loss) before taxation

As a result of the foregoing factors, profit before taxation of approximately RMB195.1 million for the period from July 24, 2019 to December 31, 2019 decreased to loss before taxation of approximately RMB126.7 million for the six months ended June 30, 2020.

Taxation

Income tax credit was RMB7.7 million for the period from July 24, 2019 to December 31, 2019 and income tax expense was RMB4.7 million for the six months ended June 30, 2020.

The effective income tax rate calculated by dividing income tax credit/expense by loss/profit before income tax was -3.9% for the period from July 24, 2019 to December 31, 2019 and was -3.7% for the six months ended June 30, 2020. The lower income tax rate for the period from July 24, 2019 to December 31, 2019 was due to the tax exemption for the gain on bargain purchase. The lower income tax rate for the six months ended June 30, 2020 was due to no recognition of deferred tax assets for tax losses and temporary differences.

Overall situation of assets and liabilities

	As at June 30, 2020 *RMB'000*	**As at December 31, 2019** *RMB'000*
Non-current assets	4,222,405	4,197,641
Current assets	1,433,717	1,709,160
Non-current liabilities	273,075	279,703
Current liabilities	1,111,616	1,224,329
Net assets	4,271,431	4,402,769

The assets and liabilities above include the following:

	As at June 30, 2020 *RMB'000*	**As at December 31, 2019** *RMB'000*
Property, plant and equipment	3,619,453	3,662,224
Right-of-use assets	305,416	298,492
Intangible assets	224,775	236,925
Restructuring debts	242,206	534,195

As at December 31, 2019 and June 30, 2020, the Target Group's total assets were RMB5,906.9 million and RMB5,656.1 million, respectively; and its total liabilities were RMB1,504.0 million and RMB1,384.7 million, respectively. Restructured debts were waived after the completion of the Restructuring Plan on September 27, 2020.

As at December 31, 2019 and June 30, 2020, the Target Group recorded net assets of RMB4,402.8 million and RMB4,271.4 million, respectively, mainly including property, plant and equipment, right-of-use assets, intangible assets and certain working capital. As at December 31, 2019 and June 30, 2020, the amounts of the above non-current assets were RMB4,197.6 million and RMB4,222.4 million, respectively, representing 95.3% and 98.9% of the Target Group's net assets, respectively.

Liquidity and financial resources

The Target Group will mainly fund its future operations with proceeds from sales.

Off-balance sheet arrangements

As at December 31, 2019 and June 30, 2020, the Target Group did not have any significant outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or other off-balance sheet arrangements. The Target Group has never engaged in trading activities involving non-exchange traded contracts. In the course of its business operations, the Target Group has never entered into transactions with, or otherwise formed relationships with, unconsolidated entities or financial partnerships established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contingent liabilities

Pending arbitration of the Target Group

As of the date of this circular, the Target Group is undergoing an arbitration with a previous contractor in respect of the services provided to Hongda Chemical prior to May 2020. In connection with the claims by the contractor, the Target Group recognized RMB188 million as trade payables, which was considered by the Target Group as the maximum amount payable in connection with the arbitration after due consideration of the advices provided by its PRC legal advisor. The PRC legal advisor of the Target Group advised that any additional compensations claimed by the contractor, if succeeded, could be settled by amounts owed by the contractor to the Target Group. Therefore, the Target Group is of the view that, after due consideration of the claims by the contractor, the amounts owed by the counterparty to the Target Group and the legal advice provided by its PRC legal advisor, no further provision is required to be made by the Target Group.

Undeclared claims and new tax claims of the Target Group

Pursuant to the agreements dated September 19, 2019 and August 20, 2020, Heze Jinda will indemnify the Target Group if,

- the payment amount arising from undeclared claims was beyond the funds in the bank account designated by the Count, considering that the creditors which have not yet declared the financial claim will have right to request payment within two years after the completion of the Plan in accordance with the payment term for the similar adjudicated indebtedness in the Plan.

- tax claims arising from the required restructuring actions under the Plan.

So the GP estimated that no further provision should be made.

Save for the above, the Target Group had no material contingent liabilities on December 31, 2019 and June 30, 2020.

Pledge of assets

Upon the completion of Restructuring and as at December 31, 2019 and June 30, 2020, the Target Group has no assets pledged to secure its banking facility.

Foreign exchange risk and management

As the activities of the Target Group are mainly conducted within the PRC, and the transactions are settled in RMB, therefore, there is no foreign exchange risk.

Employee and remuneration policy

As at December 31, 2019 and June 30, 2020, the Target Group employed a total of 2,405 and 2,126 employees, respectively. The Target Group has entered into a standard employment contract with each of the full-time employees. Remuneration for the employees includes basic wages, variable wages, bonuses and other benefits, which are determined according to the market rate of each position and the overall performance of each employee.

Significant investments held, material acquisition and disposal of subsidiaries, associated companies and joint ventures, and future plans for material investments

As at December 31, 2019 and June 30, 2020, there were no other significant investments held, and no material acquisition or disposal of subsidiaries, associated companies and joint ventures. As at June 30, 2020, the Target Group had not approved any plan for other material investments or additions of capital assets.

This Appendix summarises the business and financial results and other financial information of Dongju Chemical for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020.

Due to the limited financial records available to the Company and the Deloitte, and the fact that most of the former key personnel responsible for finance and accounting matters of Dongju Chemical had left prior to the Group's participation in the management starting from July 2019, the Company is unable to fully ascertain the details and components of certain financial information as reported in Dongju Chemical's financial statements for the years ended December 31, 2017, 2018 and 2019 (in respect of the period prior to July 2019) to provide in-depth analysis on the trend and changes of the historical financial results. Also, as the bankruptcy restructuring process of Dongju Chemical has been completed and the Group has taken over operation and management of Dongju Chemical since July 2019, the Company considers the historical financial figures are not relevant and meaningful for evaluating the current and future performance of Dongju Chemical.

BUSINESS AND FINANCIAL RESULTS OF DONGJU CHEMICAL

Founded on December 17, 2009, Dongju Chemical is located in Dongming Engineering Plastic Industrial Park in Heze. Dongju Chemical's main products include caprolactam, ammonium sulfate, hydrogen peroxide, sulfuric acid, etc. Its production facilities have an annual capacity of 300,000 tons of sulfur-based sulphuric acid, 2×130,000 tons of hydrogen peroxide, and 2×100,000 tons of caprolactam.

Financial indicators

The following table sets forth the financial ratios of Dongju Chemical as at the dates and for the years/periods indicated:

Financial indicators	For the six months ended June 30, 2020	For the six months ended June 30, 2019	For the year ended December 31, 2019	For the year ended December 31, 2018	For the year ended December 31, 2017
Gross profit/(loss) margin	(0.3%)	13.8%	1.0%	3.7%	1.6%
Net profit/(loss) margin	(4.3%)	6.2%	(60.9%)	(6.6%)	(12.5%)

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
Gearing ratio	–	–	–	(2.5)

Note: The gearing ratio is calculated by dividing total interest-bearing borrowings by total equity at the end of the year/period.

Revenue

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sale of:					
Caprolactam	525,825	–	–	745,389	1,088,245
Cyclohexanone processing	–	344,738	638,453	373,877	–
Others	59,967	–	–	50,901	76,146
	585,792	344,738	638,453	1,170,167	1,164,391

For the three years ended December 31, 2017, 2018 and 2019, the revenue of Dongju Chemical was RMB1,164.4 million, RMB1,170.2 million and RMB638.5 million, respectively. The revenue increased by 0.5% from 2017 to 2018. The revenue decreased by 45.4% from 2018 to 2019, mainly due to the decrease in caprolactam in 2019. Since the second half of 2018, Fangming Chemical began to entrust Dongju Chemical to process caprolactam and sold caprolactam by Fangming Chemical itself. Dongju Chemical only charged for processing fee and stop selling caprolactam.

For the six months ended June 30, 2020, Dongju Chemical recorded a revenue of RMB585.8 million, which represented an increase of 69.9% from RMB344.7 million for the same period in 2019, mainly due to the increase in revenue from sale of caprolactam. As Fangming Chemical ceased to entrust Dongju Chemical to process caprolactam in early 2020, Dongju Chemical sold caprolactam by itself.

Cost of sales

For the three years ended December 31, 2017, 2018 and 2019, the cost of sales of Dongju Chemical were RMB1,145.2 million, RMB1,126.7 million and RMB632.1 million, respectively. The cost of sales decreased by 1.6% from 2017 to 2018 and further decreased by 43.9% from 2018 to 2019, mainly because Fangming Chemical entrusted Dongju Chemical processing caprolactam since the second half of 2018.

For the six months ended June 30, 2020, the cost of sales Dongju Chemical was RMB587.6 million, representing an increase of 97.6% from RMB297.3 million for the same period in 2019, mainly because Fangming Chemical ceased entrusting Dongju Chemical to process caprolactam in early 2020 and Dongju Chemical start to purchase primary raw material and produce caprolactam for sale.

Gross profit and gross profit margin

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Caprolactam	6,923	–	–	(1,486)	28,641
Cyclohexanone processing	–	47,431	6,321	50,058	–
Others	(8,701)	–	–	(5,131)	(9,456)
	(1,778)	47,431	6,321	43,441	19,185

For the three years ended December 31, 2017, 2018 and 2019, the gross profit of Dongju Chemical was RMB19.2 million, RMB43.4 million and RMB6.3 million, representing a gross profit margin of 1.6%, 3.7% and 1.0%, respectively. The gross profit increased by 126.4% from 2017 to 2018, mainly because Fangming Chemical began to entrust Dongju Chemical to process caprolactam and sell it by itself in the second half of 2018 and Dongju Chemical shifted to charge fees for processing with higher gross profit margin. The gross profit decreased by 85.4% from 2018 to 2019, mainly because the increase of commission processing cost.

For the six months ended June 30, 2020, Dongju Chemical recorded a gross loss of RMB1.8 million, while recorded a gross profit of RMB47.4 million for the same period in 2019, mainly because Fangming Chemical ceased to entrust Dongju Chemical to process caprolactam in early 2020.

Other expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loss on bankruptcy restructuring	–	–	201,281	–	–
Loss on bankruptcy claims	–	–	–	1,338	1,296
Expense on suspension of production	9,889	10,571	19,172	20,630	19,870
Others	–	–	105	532	4,386
	9,889	10,571	220,558	22,500	25,552

For the three years ended December 31, 2017, 2018 and 2019, other expenses of Dongju Chemical were RMB25.6 million, RMB22.5 million and RMB220.6 million, respectively. Other expenses decreased by RMB3.1 million or 11.9% from 2017 to 2018, mainly due to the decrease in loss from other claims. The increase of RMB198.1 million or 880.3% in other expenses from 2018 to 2019 was mainly due to the compensatory loss for other entities from debt restructuring in 2019.

For the six months ended June 30, 2020, other expenses of Dongju Chemical were RMB9.9 million, while the other expenses were RMB10.6 million for the same period in 2019.

Other gains and losses

	For the six months ended June 30,		**For the year ended December 31,**		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Impairment loss on property, plant and equipment	–	–	(23,069)	–	–
Others	224	21	1,253	9	124
	224	21	(21,816)	9	124

For the three years ended December 31, 2017, 2018 and 2019, other gains and losses of Dongju Chemical were RMB0.1 million of gain, RMB9,000 of gain on other default penalty and RMB21.8 million of losses respectively, which was mainly impairment loss on property, plant and equipment made in 2019.

For the six months ended June 30, 2020, Dongju Chemical's other gains were RMB0.2 million, while the other gains were RMB21,000 for the same period in 2019.

Impairment losses, net of reversal

For the three years ended December 31, 2017, 2018 and 2019, Dongju Chemical's impairment loss was RMB3.1 million, nil and RMB1.4 million respectively, which was impairment losses on trade and other receivables.

For the six months ended June 30, 2020, Dongju Chemical's impairment loss was RMB35,000, as compared to RMB5.7 million for the same period in 2019, which was impairment losses on trade and other receivables.

Selling and distribution expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Transportation fee	7,853	–	–	4,952	3,875
Port expenses	1,701	–	–	–	–
Assaying and examination fees	–	–	–	–	1,069
Others	–	15	808	21	54
Total	9,554	15	808	4,973	4,998

For the three years ended December 31, 2017, 2018 and 2019, Dongju Chemical's selling and distribution expenses were RMB5.0 million, RMB5.0 million and RMB0.8 million, respectively. The selling and distribution expenses decreased significantly by approximately RMB4.2 million or 83.8% from 2018 to 2019, mainly due to the decrease in sales of caprolactam in 2019.

For the six months ended June 30, 2020, Dongju Chemical's selling and distribution expenses amounted to RMB9.6 million, representing a significant increase of RMB9.5 million from RMB15,000 for the same period in 2019, mainly because Dongju Chemical resumed selling caprolactam by itself in 2020.

Administrative expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Labour cost	430	559	866	727	962
Management fee	–	5,231	6,974	10,461	5,561
Depreciation and amortization expense	1,478	1,210	2,981	3,026	3,101
Tax	1,272	1,272	2,667	3,472	7,161
Bank charges	18	2	25	89	32,098
Others	715	1,553	4,641	794	8,933
Total	3,913	9,827	18,154	18,569	57,816

For the three years ended December 31, 2017, 2018 and 2019, Dongju Chemical's administrative expenses were RMB57.8 million, RMB18.6 million and RMB18.2 million, respectively. The administrative expenses dropped by 67.9% from 2017 to 2018, mainly due to the decrease in bank charges. The administrative expenses in 2019 decreased slightly by 2.2% compared with 2018.

For the six months ended June 30, 2020, Dongju Chemical's administrative expenses were RMB3.9 million, representing a decrease of 60.7% from RMB98.3 million for the same period in 2019, mainly due to the cease of management fee paid to Hongye Group since Shunri Xinze acquired the six enterprises.

Finance costs

For the two years ended December 31, 2017 and 2018, the finance costs of Dongju Chemical were RMB92.3 million and RMB75.4 million respectively, which were mainly interest on loans from financial institutions. The interest ceased to accrue after the company entered the stage of bankruptcy reorganization in September 2018. For the year ended December 31, 2019 and the six months ended June 30, 2020, Dongju Chemical's finance costs were zero.

Profit/loss before taxation

As mentioned above, the loss before taxation for the three years ended December 31, 2017, 2018 and 2019 was RMB146.0 million, RMB77.3 million and RMB256.3 million, respectively.

For the six months ended June 30, 2020, Dongju Chemical recorded a loss before taxation of RMB24.9 million, as opposed to profit before taxation of RMB21.4 million for the same period in 2019.

Profit/loss for the period

As mentioned above, the loss for the three years ended December 31, 2017, 2018 and 2019 was RMB146.0 million, RMB77.3 million and RMB388.6 million, respectively.

For the six months ended June 30, 2020, Dongju Chemical recorded a loss for the period of RMB24.9 million, as opposed to a profit of RMB21.4 million for the same period in 2019.

Overall situation of assets and liabilities

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	795,471	777,985	861,123	919,754
Current assets	614,689	496,289	268,040	1,284,534
Current liabilities	2,449,054	2,288,225	2,554,563	2,856,294
Net liabilities	(1,038,894)	(1,013,951)	(1,425,400)	(652,006)

The above amounts of assets and liabilities include the following:

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	760,233	742,323	825,460	883,243
Right-of-use assets/prepaid lease payments	35,238	35,662	35,663	36,551
Bank and other loans	–	–	–	1,779,277
Restructuring debts	1,880,283	1,895,494	2,451,980	–
Deposit in Administrators' account	27,208	42,419	–	–
Amounts due from related parties	431,467	332,617	117,562	1,005,676
Amounts due to related parties	409,210	139,523	49,477	226,551

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Dongju Chemical's total assets were RMB2,204.3 million, RMB1,129.2 million, RMB1,274.3 million and RMB1,410.2 million, respectively; and its total liabilities were RMB2,856.3 million, RMB2,554.6 million, RMB2,288.2 million and RMB2,449.1 million, respectively.

Bank and other loans and restructured debts have been waived after the completion of the Restructuring Plan on September 27, 2020. Its net assets after debt restructuring mainly include property, plant and equipment, and a small amount of working capital. As at December 31, 2017, 2018 and 2019 and June 30, 2020, Dongju Chemical's property, plant and equipment amounted to RMB883.2 million, RMB825.5 million, RMB742.3 million and RMB760.2 million, respectively.

Liquidity and financial resources

The future operations of Dongju Chemical will be mainly funded by sales proceeds.

Off-balance sheet arrangements

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Dongju Chemical did not have any material outstanding off-balance sheet guarantees, interest rate swaps, foreign currency and commodity forwards contracts or other off-balance sheet arrangements. Dongju Chemical does not engage in trading activities involving non-exchange traded contracts. In the course of business operations, Dongju Chemical does not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contingent liabilities

According to the Restructuring Plan, the creditors which have not yet declared the financial claim will have right to request payment within two years after the completion of Restructuring Plan. Heze Jinda will indemnify Dongju Chemical if such claims arise in accordance with the agreements dated September 19, 2019 and August 20, 2020. As such, the management of the Dongju Chemical estimated that no provision should be made in this regard.

Save as the above, as at December 31, 2017, 2018 and 2019 and June 30, 2020, Dongju Chemical did not have any material contingent liabilities.

Pledge of assets

The carrying amount of assets pledged to secure Dongju Chemical's banking facilities as at the dates indicated is as follows:

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	487,281	411,617	–	–
Prepaid lease payments	37,359	36,511	–	–
	524,640	458,128	–	–

Foreign exchange risk and management

Dongju Chemical's principal business is in the PRC, and all its transactions are settled in RMB, so there is no foreign exchange risk.

Employee and remuneration policy

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the total number of employees of Dongju Chemical were 565, 540, 496 and 426, respectively. Dongju Chemical has entered into a standard employment contract with each full-time employee. Employee compensation includes base pay, variable pay and other benefits, which are determined according to the market rate of each position and the overall performance of each employee.

Material investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and plans for future material investments

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Dongju Chemical did not hold any other material investments, nor had it entered into any material acquisitions or disposals of subsidiaries, associates and joint ventures. As at June 30, 2020, Dongju Chemical had not authorized any plan for other material investments or additions of capital assets.

This Appendix summarises the business and financial results and other financial information of Fangming Chemical for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020.

Due to the limited financial records available to the Company and the Deloitte, and the fact that most of the former key personnel responsible for finance and accounting matters of Fangming Chemical had left prior to the Group's participation in the management starting from July 2019, the Company is unable to fully ascertain the details and components of certain financial information as reported in Fangming Chemical's financial statements for the years ended December 31, 2017, 2018 and 2019 (in respect of the period prior to July 2019) to provide in-depth analysis on the trend and changes of the historical financial results. Also, as the bankruptcy restructuring process of Fangming Chemical has been completed and the Group has taken over operation and management of Fangming Chemical since July 2019, the Company considers the historical financial figures are not relevant and meaningful for evaluating the current and future performance of Fangming Chemical.

BUSINESS AND FINANCIAL RESULTS OF FANGMING CHEMICAL

Founded on July 4, 2002, Fangming Chemical is located in Dongming Engineering Plastic Industrial Park in Heze. Its main products include cyclohexanone, nylon 6 chips, etc. Its production facilities have an annual capacity of 80,000 tons of cyclohexanone and 80,000 tons of high-performance nylon 6 chips.

Financial indicators

The following table sets forth the financial ratios of Fangming Chemical as at the dates and for the years/periods indicated:

Financial indicators	For the six months ended June 30, 2020	For the six months ended June 30, 2019	For the year ended December 31, 2019	For the year ended December 31, 2018	For the year ended December 31, 2017
Gross profit/(loss) margin	(2.5%)	0.9%	(8.3%)	3.5%	3.5%
Net loss margin	(9.1%)	(1.2%)	(33.7%)	(8.8%)	(44.5%)

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
Gearing ratio	–	–	–	(0.9)

Note: The gearing ratio is calculated by dividing total interest-bearing borrowings by total equity at the end of the year/period.

Revenue

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sale of:					
Nylon 6 chips	310,220	429,988	815,452	1,001,699	690,589
Cyclohexanone	136,706	60,650	126,751	602,274	742,403
Caprolactam	–	189,229	345,767	209,316	–
Others	99,546	114,723	231,422	211,700	191,805
	546,472	794,590	1,519,392	2,024,989	1,624,797

For the three years ended December 31, 2017, 2018 and 2019, the revenue of Fangming Chemical was RMB1,624.8 million, RMB2,025.0 million and RMB1,519.4 million, respectively. The revenue increased by 24.6% from 2017 to 2018, mainly due to (i) the increase in the price and sale volume of nylon 6 chips; (ii) the addition of caprolactam sales revenue as Fangming Chemical began to sell caprolactam processed by Dongju Chemical in the second half of 2018. The revenue decreased by 25.0% from 2018 to 2019, mainly due to (i) the decline in the sales price of nylon 6 chips and caprolactam; (ii) the decrease in the sales volume of cyclohexanone partially offset by the increase of sale volume of caprolactam.

For the six months ended June 30, 2020, Fangming Chemical recorded a revenue of RMB546.5 million, representing a decrease of 31.2% from RMB794.6 million for the same period in 2019, mainly due to the drop in revenue from caprolactam as a result of ceasing entrusting Dongju Chemical to process caprolactam in 2020 and thus Fangming Chemical resulted a decrease in revenue.

Cost of sales

For the three years ended December 31, 2017, 2018 and 2019, the cost of sales of Fangming Chemical was RMB1,568.4 million, RMB1,954.5 million and RMB1,645.5 million, respectively. The cost of sales increased by 24.6% from 2017 to 2018, mainly due to (i) the increase in the cost of raw materials driven by the market price and sales volume of nylon 6 chips; (ii) the additional cost of caprolactam as Fangming Chemical began to entrust Dongju Chemical to process and sell caprolactam in the second half of 2018. The cost of sales decreased by 15.8% from 2018 to 2019, mainly due to the decline in the price of cyclohexanone.

For the six months ended June 30, 2020, Fangming Chemical's cost of sales was RMB559.9 million, representing a decrease of 28.9% from RMB787.3 million for the same period last year, mainly due to the drop in cost of sales of caprolactam as a result of ceasing entrusting Dongju Chemical to process caprolactam in 2020.

Gross profit/(loss) and gross profit/(loss) margin

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Nylon 6 chips	(11,112)	(10,402)	(47,661)	11,289	8,861
Cyclohexanone	(15,727)	5,238	(93,700)	21,959	48,266
Caprolactam	–	(8,454)	(19,311)	3,715	–
Others	13,364	20,951	34,521	33,504	(746)
	(13,475)	7,333	(126,151)	70,467	56,381

For the three years ended December 31, 2017, 2018 and 2019, the gross profit of Shandong Fangming Chemical was RMB56.4 million, RMB70.5 million and RMB-126.2 million, representing a gross profit margin of 3.5%, 3.5% and -8.3%, respectively. The gross profit jumped by 25.0% from 2017 to 2018, mainly due to the increase in the sale price and volume of nylon 6 chips, and the increase in the other sales of steam. The gross profit plummeted by 279.0% from 2018 to 2019, mainly due to the decrease in the price of caprolactam and nylon 6 chips.

For the six months ended June 30, 2020, Fangming Chemical recorded a gross loss of RMB13.5 million, while Fangming Chemical recorded a gross profit of RMB7.3 million for the same period in 2019, mainly due to ceasing to commission Dongju Chemical to process caprolactam in 2020 and smaller spread between raw material and products.

Other expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loss on bankruptcy restructuring	–	–	119,982	–	–
Loss on bankruptcy claims	–	–	122,935	69,031	29,639
Expense on suspension of production	19,940	–	12,332	–	17,548
Others	–	124	1,145	481	137
	19,940	124	256,394	69,512	47,324

For the three years ended December 31, 2017, 2018 and 2019, other expenses of Fangming Chemical were RMB47.3 million, RMB69.5 million and RMB256.4 million, respectively. Other expenses increased by 46.9% from 2017 to 2018, mainly due to the increase in loss from claims for bankruptcy. The increase of 268.9% in other expenses from 2018 to 2019 was mainly due to the increase in loss from debt restructuring in 2019.

For the six months ended June 30, 2020, Fangming Chemical's other expenses amounted to RMB19.9 million, representing an increase of RMB19.8 million from RMB124,000 for the same period in 2019, mainly due to the increase in loss from work suspension.

Other gains and losses

	For the six months ended June 30,		**For the year ended December 31,**		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Gain/(loss) on disposal of property, plant and equipment	(4)	–	–	–	138
Gain/(loss) on disposal of available-for-sale financial assets	–	–	–	–	(2,000)
Gains/(loss) on disposal of waste materials	10,170	–	–	–	–
Debts waived	–	–	3,306	–	–
Impairment of available-for-sale financial assets	–	–	–	–	(1,000)
Impairment loss of investment in subsidiaries	–	–	–	–	(458,970)
Impairment of property, plant and equipment	–	–	(2,369)	–	–
Others	166	156	382	9,514	2
	10,332	156	1,319	9,514	(461,830)

For the three years ended December 31, 2017, 2018 and 2019, other gains and losses of Fangming Chemical were losses of RMB461.8 million, gains of RMB9.5 million and gains of RMB1.3 million respectively. Other losses incurred during the year ended December 31, 2017 were mainly impairment loss of investment in subsidiaries, namely, Dongju Chemical and Hengshun Heat Supply due to their insolvent and bad management and loss on disposal of available-for-sale financial assets.

For the six months ended June 30, 2020, Fangming Chemical's other gains were RMB10.3 million, representing an increase of RMB10.2 million from RMB156,000 for the same period in 2019, mainly due to the increase in the gains on disposal of waste materials.

Impairment losses, net of reversal

For the three years ended December 31, 2017, 2018 and 2019, Fangming Chemical's impairment loss was RMB97.0 million, RMB75.9 million and RMB4.2 million respectively, which were mainly impairment loss on trade and other receivables.

For the six months ended June 30, 2020, Fangming Chemical's impairment loss was RMB0.3 million, representing a decrease of 81.6% from RMB1.7 million for the same period in 2019, which was mainly impairment loss on trade and other receivables.

Selling and distribution expenses

	For the six months ended June 30,		**For the year ended December 31,**		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Packaging fee	3,316	–	1,302	–	–
Transportation fee	596	–	1,750	6	84
Salaries and insurance	768	–	910	–	–
Other costs	98	26	256	86	64
Total	4,778	26	4,218	92	148

For the three years ended December 31, 2017, 2018 and 2019, Fangming Chemical's selling and distribution expenses were RMB0.1 million, RMB92,000 and RMB4.2 million, respectively. The significant increase of 4,484.8% in selling and distribution expenses from 2018 to 2019 was mainly due to the the increase of packaging costs for sales of caprolactam and the payment of freight after the management by Risun Chemicals since July 2019.

For the six months ended June 30, 2020, the selling and distribution expenses of Fangming Chemical amounted to RMB4.8 million, representing a significant increase of RMB4.8 million from RMB26,000 for the same period in 2019, mainly due to the increase of packaging costs for sales of caprolactam and the payment of freight after the management by Risun Chemicals since July 2019.

Administrative expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Labour cost	6,055	4,508	14,560	20,298	10,490
Management fee	11,691	5,828	20,597	11,657	5,547
Amortization expenses	787	1,630	1,310	1,286	1,286
Tax	1,274	1,274	2,782	4,859	4,244
Bank charges	195	738	32	207	8,442
Others	1,981	1,151	17,375	14,610	14,189
Total	21,983	15,129	56,656	52,917	44,198

For the three years ended December 31, 2017, 2018 and 2019, Fangming Chemical's administrative expenses were RMB44.2 million, RMB52.9 million and RMB56.7 million, respectively. The administrative expenses increased by 19.7% from 2017 to 2018, mainly due to the increase in management fee. The increase of 7.1% in administrative expenses from 2018 to 2019 was mainly due to the increase in management fee.

For the six months ended June 30, 2020, Fangming Chemical's administrative expenses were RMB22.0 million, representing an increase of 45.3% from RMB15.1 million for the same period last year, mainly due to management fee paid.

Finance costs

For the two years ended December 31, 2017 and 2018, the finance costs of Fangming Chemical were RMB157.2 million and RMB60.6 million respectively, which were mainly interest on loans from financial institutions. The interest ceased to accrue after Fangming Chemical entered the stage of bankruptcy reorganization in September 2018. For the year ended December 31, 2019 and the six months ended June 30, 2020, Fangming Chemical's finance costs were nil.

Loss before taxation

The loss before taxation for the three years ended December 31, 2017, 2018 and 2019 was RMB723.2 million, RMB179.0 million and RMB446.3 million, respectively.

For the six months ended June 30, 2020, Fangming Chemical recorded a loss before taxation of RMB50.0 million, as compared to a loss of RMB9.5 million for the same period in 2019.

Loss for the period

The loss for period during the three years ended December 31, 2017, 2018 and 2019 was RMB723.2 million, RMB179.0 million and RMB511.8 million, respectively.

For the six months ended June 30, 2020, Fangming Chemical recorded a loss for the period of RMB50.0 million, as opposed to a loss of RMB9.5 million for the same period in 2019.

Overall situation of assets and liabilities

	As at June 30,	**As at December 31,**		
	2020	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	456,836	414,513	451,778	492,901
Current assets	514,768	530,564	200,492	959,406
Current liabilities	2,638,039	2,561,546	2,406,976	3,067,255
Net assets	(1,666,435)	(1,616,469)	(1,754,706)	(1,614,948)

The above amounts of assets and liabilities include the following:

	As at June 30,	**As at December 31,**		
	2020	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	355,802	362,694	399,959	439,796
Right-of-use assets/prepaid lease payments	51,177	51,819	51,819	53,105
Bank and other borrowings	–	–	–	1,499,810
Restructuring debts	1,953,414	1,980,599	2,245,178	–
Deposit in Administrators' account	117,938	147,215	–	–
Amounts due from related parties	1,765	2,020	–	703,377
Amounts due to related parties	549,568	458,715	126,170	937,706

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Fangming Chemical's total assets were RMB1,452.3 million, RMB652.3 million, RMB945.1 million and RMB971.6 million, respectively; and its total liabilities were RMB3,067.3 million, RMB2,407.0 million, RMB2,561.5 million and RMB(2,638.0) million, respectively.

Bank and other loans and restructured debts have been waived after the completion of the Restructuring Plan on September 27, 2020. Fangming Chemical's net assets after debt restructuring mainly include property, plant and equipment, and a small amount of working capital. As at December 31, 2017, 2018 and 2019 and June 30, 2020, Fangming Chemical's property, plant and equipment amounted to RMB439.8 million, RMB400.0 million, RMB362.7 million and RMB355.8 million, respectively.

Liquidity and financial resources

The future operations of Fangming Chemical will be mainly funded by sales proceeds.

Off-balance sheet arrangements

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Fangming Chemical did not have any material outstanding off-balance sheet guarantees, interest rate swaps, foreign currency and commodity forwards contracts or other off-balance sheet arrangements. Fangming Chemical does not engage in trading activities involving non-exchange traded contracts. In the course of business operations, Fangming Chemical does not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contingent liabilities

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees provided in respect of				
– loan facilities	1,092,788	1,092,788	–	–

According to the Restructuring Plan, the creditors which have not yet declared the financial claim will have right to request payment within two years after the completion of Restructuring Plan. Heze Jinda will indemnify Fangming Chemical if such claims arise in accordance with the agreements dated September 19, 2019 and August 20, 2020. As such, the management of Fangming Chemical estimated that no provision should be made in this regard.

Save as the above, as at December 31, 2017, 2018 and 2019 and June 30, 2020, Fangming Chemical did not have any material contingent liabilities.

Pledge of assets

The carrying amount of assets pledged to secure its banking facility by Fangming Chemical as at the dates indicated is as follows:

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	–	–	267,128	315,104
Right-of-use assets	–	–	53,105	54,391
	–	–	320,233	369,495

Foreign exchange risk and management

Fangming Chemical's principal business is in the PRC, and all its transactions are settled in RMB, so there is no foreign exchange risk.

Employee and remuneration policy

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the total number of employees of Fangming Chemical was 416, 411, 551 and 534, respectively. Fangming Chemical has entered into a standard employment contract with each full-time employee. Employee compensation includes base pay, variable pay and other benefits, which are determined according to the market rate of each position and the overall performance of each employee.

Material investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and plans for future material investments

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Fangming Chemical did not hold any other material investments, nor had it entered into any material acquisitions or disposals of subsidiaries, associates and joint ventures. As at June 30, 2020, Fangming Chemical had not authorized any plan for other material investments or additions of capital assets.

This Appendix summarises the business and financial results and other financial information of Hengshun Heat Supply for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020.

Due to the limited financial records available to the Company and the Deloitte, and the fact that most of the former key personnel responsible for finance and accounting matters of Hengshun Heat Supply had left prior to the Group's participation in the management starting from July 2019, the Company is unable to fully ascertain the details and components of certain financial information as reported in Hengshun Heat Supply's financial statements for the years ended December 31, 2017, 2018 and 2019 (in respect of the period prior to July 2019) to provide in-depth analysis on the trend and changes of the historical financial results. Also, as the bankruptcy restructuring process of Hengshun Heat Supply has been completed and the Group has taken over operation and management of Hengshun Heat Supply since July 2019, the Company considers the historical financial figures are not relevant and meaningful for evaluating the current and future performance of Hengshun Heat Supply.

BUSINESS AND FINANCIAL RESULTS OF HENGSHUN HEAT SUPPLY

Hengshun Heat Supply was established on June 11, 2010. Located in Dongming Engineering Plastic Industrial Park in Heze, Hengshun Heat Supply serves as a central heat supply project in the park and has 4×130t/h high-temperature, high-pressure boilers.

Financial indicators

The following table sets forth the financial ratios of Hengshun Heat Supply as at the dates and for the years/periods indicated:

	For the six months ended June 30,		For the year ended December 31,		
Financial indicators	**2020**	**2019**	**2019**	**2018**	**2017**
Gross profit/(loss) margin	14.7%	1.2%	(38.1%)	(1.1%)	10.9%
Net profit/(loss) margin	10.8%	1.1%	(265.1%)	(18.5%)	(4.5%)

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
Gearing ratio	–	–	–	3.3

Note: The gearing ratio is calculated by dividing total interest-bearing borrowings by total equity as of the end of the year/period.

Revenue

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Leasing fees	16,997	18,261	37,023	24,369	–
Steam	–	–	–	4,295	180,567
Sales of materials	391	13,464	17,872	103,314	409
	17,388	31,725	54,895	131,978	180,976

For the three years ended December 31, 2017, 2018 and 2019, the revenue of Hengshun Heat Supply was RMB181.0 million, RMB132.0 million and RMB54.9 million, respectively. The revenue decreased by 27.1% from 2017 to 2018, mainly due to the decrease in revenue from steam partially offset by the increase of sale of materials and lease revenue. The revenue declined by 58.4% from 2018 to 2019, mainly due to the decrease in revenue from sales of materials partially offset by the increase of lease revenue.

For the six months ended June 30, 2020, Hengshun Heat Supply recorded a revenue of RMB17.4 million, representing a decrease of 45.2% from RMB31.7 million for the same period in 2019, mainly due to the decrease in revenue from sales of materials.

Hengshun Heat Supply mainly provides steam, materials and equipment leasing for Fangming Chemical and Dongju Chemical, and its revenue generated from leasing equipment to external customers accounts for not more than 10% of the total revenue.

Cost of sales

For the three years ended December 31, 2017, 2018 and 2019, the cost of sales of Hengshun Heat Supply were RMB161.2 million, RMB133.5 million and RMB75.8 million, respectively. The cost of sales decreased by 17.2% from 2017 to 2018, mainly due to the reduction of steam cost partially offset by the increase of lease cost. The cost of sales decreased by 43.2% from 2018 to 2019, mainly due to the decrease in cost of sales of materials partially offset by the increase of lease cost.

For the six months ended June 30, 2020, the cost of sales of Hengshun Heat Supply was RMB14.8 million, representing a decrease of 52.7% from RMB31.3 million for the same period in 2019, mainly due to the decrease in cost of sales of materials.

Gross profit and gross profit margin

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Leasing fees	2,683	1,556	2,639	3,668	–
Steam	–	–	–	483	19,430
Sales of materials	(122)	(1,177)	(23,551)	(5,632)	345
	2,561	379	(20,912)	(1,481)	19,775

For the three years ended December 31, 2017, 2018 and 2019, the gross profit of Hengshun Heat Supply was RMB19.8 million, RMB-1.5 million and RMB-20.9 million, representing a gross profit margin of 10.9%, -1.1% and -38.1%, respectively.

For the six months ended June 30, 2020, Hengshun Heat Supply recorded a gross profit of RMB2.6 million, as opposed to RMB0.4 million for the same period in 2019.

Other expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loss on bankruptcy restructuring	–	–	115,454	–	–
Loss on bankruptcy claims	–	–	–	566	89
Others	–	–	–	30	132
	–	–	115,454	596	221

For the three years ended December 31, 2017, 2018 and 2019, other expenses of Hengshun Heat Supply were RMB221,000, RMB596,000 and RMB115.5 million, respectively. Other expenses increased by 169.7% from 2017 to 2018, mainly due to the increase in loss on claims for bankruptcy. The increase of RMB114.9 million in other expenses from 2018 to 2019 was mainly due to the increase in losses from debt restructuring due to compensation for other entities.

Other gains and losses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Impairment of property, plant and equipment	–	–	(1,453)	–	–
Debt waived	–	–	1,818	–	–
Others	47	2	4	2,039	1,728
	47	2	369	2,039	1,728

For the three years ended December 31, 2017, 2018 and 2019, other gains of Hengshun Heat Supply were RMB1.7 million, RMB2.0 million and RMB369,000 respectively, which were mainly liquidated damages income.

For the six months ended June 30, 2020, Hengshun Heat Supply's other gains were RMB47,000, as opposed to RMB2,000 for the same period in 2019.

Impairment loss, net of reversal

For the three years ended December 31, 2017, 2018 and 2019, Hengshun Heat Supply's impairment loss was RMB13.3 million, RMB17.3 million and RMB9.0 million respectively, which were mainly impairment losses on trade and other receivables.

Administrative expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Labour cost	–	–	–	–	454
Management fee	–	–	–	298	1,001
Agency fees	–	–	–	146	199
Tax	17	29	73	85	185
Bank charges	7	11	18	6	10
Others	43	–	454	431	70
Total	67	40	545	966	1,919

For the three years ended December 31, 2017, 2018 and 2019, Hengshun Heat Supply's administrative expenses were RMB1.9 million, RMB1.0 million and RMB0.5 million, respectively. The administrative expenses decreased by 49.7% from 2017 to 2018, mainly due to the decrease in management service fees.

For the six months ended June 30, 2020, Hengshun Heat Supply's administrative expenses were RMB67,000, as opposed to RMB40,000 for the same period in 2019.

Finance costs

For the two years ended December 31, 2017 and 2018, the finance costs of Hengshun Heat Supply were RMB13.9 million and RMB6.2 million respectively, which were mainly interest on loans from financial institutions. The interest ceased to accrue after the company entered the stage of bankruptcy reorganization in September 2018. For the year ended December 31, 2019 and the six months ended June 30, 2020, Hengshun Heat Supply's finance costs were zero.

Profit/loss before taxation

The loss before taxation for the three years ended December 31, 2017, 2018 and 2019 was RMB7.8 million, RMB24.5 million and RMB145.5 million, respectively.

For the six months ended June 30, 2020, Hengshun Heat Supply recorded a profit before taxation of RMB2.5 million, as opposed to RMB341,000 for the same period in 2019.

Profit/loss for the period

The loss for the period during the three years ended December 31, 2017, 2018 and 2019 was RMB8.1 million, RMB24.5 million and RMB145.5 million, respectively.

For the six months ended June 30, 2020, Hengshun Heat Supply recorded a profit for the period of RMB1.9 million, as opposed to RMB341,000 for the same period in 2019.

Overall situation of assets and liabilities

	As at June 30,	**As at December 31,**		
	2020	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	164,504	173,171	191,356	209,212
Current assets	90,087	272,811	259,248	260,163
Non-current liabilities	–	–	–	–
Current liabilities	372,429	565,691	604,771	446,030
Net assets	(117,838)	(119,709)	(154,167)	23,345

The above amounts of assets and liabilities include the following:

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	164,504	173,171	191,356	209,212
Right-of-use assets/prepaid lease payments	–	–	–	–
Bank and other borrowings	–	–	–	76,815
Restructuring debts	344,409	363,947	387,685	–
Amounts due from related parties	56,008	223,976	223,712	215,668
Amounts due to related parties	21,243	196,842	207,687	38,630

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hengshun Heat Supply's total assets were RMB469.4 million, RMB450.6 million, RMB446.0 million and RMB254.6 million, respectively; and its total liabilities were RMB446.0 million, RMB604.8 million, RMB565.7 million and RMB372.4 million, respectively.

Bank and other loans and restructured debts have been waived after the completing of the Restructuring Plan on September 27, 2020. Its net assets after debt restructuring mainly include property, plant and equipment, and a small amount of working capital. As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hengshun Heat Supply's property, plant and equipment amounted to RMB209.2 million, RMB191.4 million, RMB173.2 million and RMB164.5 million, respectively.

Liquidity and financial resources

The future operations of Hengshun Heat Supply will be mainly funded by sales proceeds.

Off-balance sheet arrangements

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hengshun Heat Supply did not have any material outstanding off-balance sheet guarantees, interest rate swaps, foreign currency and commodity forwards contracts or other off-balance sheet arrangements. Hengshun Heat Supply does not engage in trading activities involving non-exchange traded contracts. In the course of business operations, Hengshun Heat Supply does not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contingent liabilities

According to the Restructuring Plan, the creditors which have not yet declared the financial claim will have right to request payment within two years after the completion of Restructuring Plan. Heze Jinda will indemnify Hengshun Heat Supply if such claims arise in accordance with the agreements dated September 19, 2019 and August 20, 2020. As such, the management of Hengshun Heat Supply estimated that no provision should be made in this regard.

Save as the above, as at December 31, 2017, 2018 and 2019 and June 30, 2020, Hengshun Heat Supply did not have any material contingent liabilities.

Pledge of assets

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hengshun Heat Supply did not have any assets pledged.

Foreign exchange risk and management

Hengshun Heat Supply's principal business is in the PRC, and all its transactions are settled in RMB, so there is no foreign exchange risk.

Employee and remuneration policy

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the total number of employees of Hengshun Heat Supply was 116, 118, 119 and 103, respectively. Hengshun Heat Supply has entered into a standard employment contract with each full-time employee. Employee compensation includes base pay, variable pay and other benefits, which are determined according to the market rate of each position and the overall performance of each employee.

Material investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and plans for future material investments

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hengshun Heat Supply did not hold any other material investments, nor had it entered into any material acquisitions or disposals of subsidiaries, associates and joint ventures. As at June 30, 2020, Hengshun Heat Supply had not authorized any plan for other material investments or additions of capital assets.

This Appendix summarises the business and financial results and other financial information of Hongda Chemical for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020.

Due to the limited financial records available to the Company and the Deloitte, and the fact that most of the former key personnel responsible for finance and accounting matters of Hongda Chemical had left prior to the Group's participation in the management starting from July 2019, the Company is unable to fully ascertain the details and components of certain financial information as reported in Hongda Chemical's financial statements for the years ended December 31, 2017, 2018 and 2019 (in respect of the period prior to July 2019) to provide in-depth analysis on the trend and changes of the historical financial results. Also, as the bankruptcy restructuring process of Hongda Chemical has been completed and the Group has taken over operation and management of Hongda Chemical since July 2019, the Company considers the historical financial figures are not relevant and meaningful for evaluating the current and future performance of Hongda Chemical.

BUSINESS AND FINANCIAL RESULTS OF HONGDA CHEMICAL

Founded in September 2008, Hongda Chemical is located in Yuncheng Chemical Industrial Park in Heze. The major manufacturing facilities of the company include coking facilities with annual production capacity of 1,200,000 tons, synthetic ammonia facilities with annual production capacity of 150,000 tons, nitric acid facilities with annual capacity of 2×150,000 tons, the major products of which include coke, synthetic ammonia, crude benzene, tars and ammonium sulfate.

Financial indicators

The following table sets forth the financial ratios of Hongda Chemical as at the dates and for the years/periods indicated:

Financial indicators	For the six months ended June 30, 2020	2019	For the year ended December 31, 2019	2018	2017
Gross profit margin	6.9%	3.5%	3.4%	8.9%	2.1%
Net profit margin	2.3%	(3.1%)	(42.6%)	(3.8%)	(20.2%)

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
Gearing ratio	–	–	–	(0.6)

Note: The gearing ratio is calculated by dividing total interest-bearing borrowings by total equity as of the end of the year/period.

Revenue

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Coke	1,015,838	879,943	1,871,647	1,458,675	1,418,841
Coking chemicals and others	244,434	165,988	604,245	548,967	436,294
	1,260,272	1,045,931	2,475,892	2,007,642	1,855,135

For the three years ended December 31, 2017, 2018 and 2019, the revenues of Hongda Chemical were RMB1,855.1 million, RMB2,007.6 million and RMB2,475.9 million, respectively. The revenue increased by 8.2% from 2017 to 2018, mainly due to sales and price of coke by 2.2% and 0.6%, respectively, and the increase in the sales revenue of materials by 9.5%. The revenue increased by 23.3% from 2018 to 2019, mainly due to the increase in the sale volume of coke by 33.2%.

For the six months ended June 30, 2020, Hongda Chemical recorded a revenue of RMB1,260.3 million, representing an increase of 20.5% from RMB1,045.9 million for the same period in 2019, mainly due to the increase in the sale volume of coke by 33.2%.

Cost of sales

For the three years ended December 31, 2017, 2018 and 2019, the cost of sales of Hongda Chemical were RMB1,816.7 million, RMB1,828.9 million and RMB2,391.9 million, respectively. The cost of sales slightly increased by 0.7% from 2017 to 2018, mainly due to the increase in the price of coke by 2.2%. The cost of sales increased by 30.8% from 2018 to 2019, mainly due to the increase in the sale volume of coke by 33.2%.

For the six months ended June 30, 2020, Hongda Chemical's cost of sales was RMB1,173.2 million, representing an increase of 16.3% from RMB1,009.0 million for the same period in 2019, mainly due to the increase in the sale volume of coke by 33.2%.

Gross profit and gross profit margin

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Coke	60,896	30,003	40,007	45,984	(34,405)
Coking chemicals and others	26,144	6,949	44,020	132,798	72,876
	87,040	36,952	84,027	178,782	38,471

For the three years ended December 31, 2017, 2018 and 2019, the gross profits of Hongda Chemical were RMB38.5 million, RMB178.8 million and RMB84.0 million, representing a gross profit margin of 2.1%, 8.9% and 3.4%, respectively. The gross profit jumped by 364.7% from 2017 to 2018, mainly due to the increase in the price of coke and the decrease in the price of coking coal, leading to higher gross profit of coke. The gross profit plummeted by 53.0% from 2018 to 2019, mainly due to the decrease in the price of coke and liquid ammonia.

For the six months ended June 30, 2020, Hongda Chemical recorded a gross profit of RMB87.0 million, representing an increase of 135.5% from RMB37.0 million for the same period in 2019, mainly due to the increase in the sale volume of coke and the decrease in the price of coking coal.

Other expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Losses from debt restructuring	–	–	803,816	–	–
Losses from claims for bankruptcy	–	–	79,768	87,143	35,674
Others	1,273	–	94	620	1,669
	1,273	–	883,678	87,763	37,343

For the three years ended December 31, 2017, 2018 and 2019, other expenses of Hongda Chemical were RMB37.3 million, RMB87.8 million and RMB883.7 million, respectively. Other expenses increased by 135.0% from 2017 to 2018, mainly due to the increase in losses from claims for bankruptcy. The increase of 906.9% in other expenses from 2018 to 2019 was mainly due to the increase in losses from debt restructuring.

Other gains and losses

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Gain on disposal of property, plant and equipment	–	–	19	–	–
Impairment loss of property, plant and equipment	–	–	(58,447)	–	–
Others	89	1,393	10,219	14,827	1,564
	89	1,393	(48,209)	14,827	1,564

For the three years ended December 31, 2017, 2018 and 2019, other gains and losses of Hongda Chemical were gains of RMB1.6 million, gains of RMB14.8 million and losses of RMB48.2 million, respectively. For the year ended December 31, 2019, other losses were mainly impairment loss of property, plant and equipment.

For the six months ended June 30, 2020, Hongda Chemical's other gains and losses were losses of RMB0.1 million, as opposed to gains of RMB1.4 million for the same period in 2019.

Impairment losses, net of reversal

For the three years ended December 31, 2017, 2018 and 2019, Hongda Chemical's credit impairment losses were RMB74.0 million, RMB15.4 million and RMB13.8 million respectively, which were mainly impairment losses on trade and other receivables.

For the six months ended June 30, 2020, Hongda Chemical's credit impairment loss was RMB4.5 million, while the impairment loss for the same period in 2019 was nil.

Selling and distribution expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Transportation fee	1,520	29,943	52,813	3,878	34,529
Port expenses	2	1,635	853	644	335
Salaries and insurance	711	135	867	350	–
Stevedoring fee	–	1,706	2,435	574	1,967
Packaging fee	237	–	29	–	–
Other costs	192	425	2,496	57	1,604
Total	2,662	33,844	59,493	5,503	38,435

For the three years ended December 31, 2017, 2018 and 2019, Hongda Chemical's selling and distribution expenses were RMB38.4 million, RMB5.5 million and RMB59.5 million, respectively. The selling and distribution expenses decreased significantly by 85.7% from 2017 to 2018, mainly due to the significant decrease in transportation fee as the transportation service delivered decreased. The surge of 981.1% in selling and distribution expenses from 2018 to 2019 was mainly due to the increase in transportation fee.

For the six months ended June 30, 2020, the selling and distribution expenses of Hongda Chemical amounted to RMB2.7 million, representing a significant decrease of 92.1% from RMB33.8 million for the same period in 2019, mainly due to the decrease in transportation fee compared with the previous period.

Administrative expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Labor costs	5,639	10,783	16,578	12,462	31,241
Depreciation expense	2,101	3,358	5,472	15,563	20,012
Management fee	16,475	11,658	57,998	14,151	15,041
Tax	8,519	1,832	9,595	14,767	14,735
Others	6,297	9,450	44,499	57,618	39,909
Total	39,031	37,081	134,142	114,561	120,938

For the three years ended December 31, 2017, 2018 and 2019, Hongda Chemical's administrative expenses were RMB120.9 million, RMB114.6 million and RMB134.1 million, respectively. The administrative expenses decreased by 5.3% from 2017 to 2018, mainly due to the decrease in labor costs. The administrative expenses increased by 17.1% from 2018 to 2019, mainly due to the increase in management fees.

For the six months ended June 30, 2020, Hongda Chemical's administrative expenses were RMB39.0 million, representing an increase of 5.3% from RMB37.1 million for the same period in 2019 slightly.

Finance costs

For the two years ended December 31, 2017 and 2018, the finance costs of Hongda Chemical were RMB156.5 million and RMB47.6 million respectively, which were mainly interest on loans from financial institutions. The interest ceased to accrue after the company entered the stage of bankruptcy reorganization in September 2018. For the year ended December 31, 2019 and the six months ended June 30, 2020, Hongda Chemical's finance costs were nil.

Profit/loss before taxation

The losses before taxation for the three years ended December 31, 2017, 2018 and 2019 were RMB374.5 million, RMB77.1 million and RMB1,055.3 million, respectively.

For the six months ended June 30, 2020, Hongda Chemical recorded a profit before taxation of RMB40.0 million, as opposed to the loss of RMB32.6 million for the same period in 2019.

Profit/loss for the period

The losses for the period during the three years ended December 31, 2017, 2018 and 2019 were RMB374.5 million, RMB77.1 million and RMB1,055.3 million, respectively.

For the six months ended June 30, 2020, Hongda Chemical recorded a profit of RMB29.3 million during the period, as opposed to the loss of RMB32.6 million for the same period in 2019.

Overall situation of assets and liabilities

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	1,485,004	1,457,333	1,609,556	1,739,243
Current assets	779,930	968,634	636,231	773,732
Non-current liabilities	–	–	–	–
Current liabilities	2,144,594	2,334,962	2,919,499	4,959,076
Net assets/(deficit)	120,340	91,005	(673,712)	(2,446,101)

The above amounts of assets and liabilities include the following:

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	1,377,735	1,383,457	1,535,683	1,663,532
Right-of-use assets/prepaid lease payments	84,365	73,876	73,873	75,711
Bank and other loans	–	–	–	1,575,155
Restructuring debts	1,718,053	1,937,214	2,594,316	–
Amounts due from related parties	209,203	139,109	90,583	348,703
Amounts due to related parties	70,860	137,826	28,992	2,273,749

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongda Chemical's total assets were RMB2,513.0 million, RMB2,245.8 million, RMB2,426.0 million and RMB2,264.9 million, respectively; and its total liabilities were RMB4,959.1 million, RMB2,919.5 million, RMB2,335.0 million and RMB2,144.6 million, respectively.

Bank and other loans and restructuring debts have been waived after the completion of the Restructuring Plan on September 27, 2020. Its net assets after debt restructuring mainly include property, plant and equipment, and a small amount of working capital. As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongda Chemical's property, plant and equipment amounted to RMB1,663.5 million, RMB1,535.7 million, RMB1,383.5 million and RMB1,377.7 million, respectively.

Liquidity and financial resources

The future operations of Hongda Chemical will be mainly funded by sales proceeds.

Off-balance sheet arrangements

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongda Chemical did not have any material outstanding off-balance sheet guarantees, interest rate swaps, foreign currency and commodity forwards contracts or other off-balance sheet arrangements. Hongda Chemical does not engage in trading activities involving non-exchange traded contracts. In the course of business operations, Hongda Chemical does not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contingent liabilities

	As at December 31,			As at June 30,
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees provided in respect of				
– loan facilities	676,894	676,894	–	–

As of the date of this circular, the Target Group is undergoing an arbitration with a previous contractor in respect of the services provided to Hongda Chemical prior to May 2020. In connection with the claims by the contractor, the Target Group recognized RMB188 million as trade payables, which was considered by the Target Group as the maximum amount payable in connection with the arbitration after due consideration of the advices provided by its PRC legal advisor. The PRC legal advisor of the Target Group advised that any additional compensations claimed by the contractor, if succeeded, could be settled by amounts owed by the contractor to the Target Group. Therefore, the Target Group is of the view that, after due consideration of the claims by the contractor, the amounts owed by the counterparty to the Target Group and the legal advice provided by its PRC legal advisor, no further provision is required to be made by the Target Group.

Undeclared claims of the Target Company

According to the Plan, the creditors which have not yet declared the financial claim will have right to request payment within two years after the completion of Plan. Heze Jinda will indemnify Hongda Chemical if such claims arise in accordance with the agreements dated September 19, 2019 and August 20, 2020. So the management of Hongda Chemical estimated that no provision should be made in this regard.

Save as the above, as at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongda Chemical did not have any material contingent liabilities.

Pledge of assets

The carrying amount of assets pledged to secure Hongda Chemical's banking facilities as at the dates indicated is as follows:

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	–	–	1,280,340	1,637,573
Right-of-use assets	–	–	33,161	53,637
	–	–	1,313,501	1,691,210

Foreign exchange risk and management

Hongda Chemical's principal business is in the PRC, and all its transactions are settled in RMB, so there is no foreign exchange risk.

Employee and remuneration policy

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the total number of employees of Hongda Chemical was 941, 964, 1,069 and 941, respectively. Hongda Chemical has entered into a standard employment contract with each full-time employee. Employee compensation includes base pay, variable pay and other benefits, which are determined according to the market rate of each position and the overall performance of each employee.

Material investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and plans for future material investments

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongda Chemical did not hold any other material investments, nor had it entered into any material acquisitions or disposals of subsidiaries, associates and joint ventures. As at June 30, 2020, Hongda Chemical had not authorized any plan for other material investments or additions of capital assets.

This Appendix summarises the business and financial results and other financial information of Hongding Chemical for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020.

Due to the limited financial records available to the Company and the Deloitte, and the fact that most of the former key personnel responsible for finance and accounting matters of Hongding Chemical had left prior to the Group's participation in the management starting from July 2019, the Company is unable to fully ascertain the details and components of certain financial information as reported in Hongding Chemical's financial statements for the years ended December 31, 2017, 2018 and 2019 (in respect of the period prior to July 2019) to provide in-depth analysis on the trend and changes of the historical financial results. Also, as the bankruptcy restructuring process of Hongding Chemical has been completed and the Group has taken over operation and management of Hongding Chemical since July 2019, the Company considers the historical financial figures are not relevant and meaningful for evaluating the current and future performance of Hongding Chemical.

BUSINESS AND FINANCIAL RESULTS OF HONGDING CHEMICAL

Founded in December 2010, Hongding Chemical is located in Yuncheng Chemical Industrial Park in Heze. The major manufacturing facilities of Hongding Chemical include adipic acid facilities with annual production capacity of 2×70,000 tons.

Financial indicators

The following table sets forth the financial ratios of Hongding Chemical as at the dates and for the years/periods indicated:

	For the six months ended June 30,		For the year ended December 31,		
Financial indicators	**2020**	**2019**	**2019**	**2018**	**2017**
Gross profit/(loss) margin	3.2%	1.4%	1.2%	(33.4%)	(4.4%)
Net loss margin	(1,768.7%)	(1,254.4%)	(20,160.0%)	(62.6%)	(22.3%)

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
Gearing ratio	–	–	–	(6.8)

Note: The gearing ratio is calculated by dividing total interest-bearing borrowings by total equity as of the end of the year/period.

Revenue

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Adipic acid	–	–	–	152,895	305,234
Others	1,042	1,530	1,776	7,760	53,848
	1,042	1,530	1,776	160,655	359,082

For the three years ended December 31, 2017, 2018 and 2019, the revenues of Hongding Chemical were RMB359.1 million, RMB160.7 million and RMB1.8 million, respectively. The revenue decreased by 55.3% from 2017 to 2018 and by 98.9% from 2018 to 2019, mainly due to the suspension of production by the company since July 2018.

For the six months ended June 30, 2020, Hongding Chemical recorded a revenue of RMB1.0 million, while RMB1.5 million was recorded for the same period in 2019.

We are making technological alterations to the equipment and planning to resume production in the future.

Cost of sales

For the three years ended December 31, 2017, 2018 and 2019, the cost of sales of Hongding Chemical were RMB374.7 million, RMB214.4 million and RMB1.8 million, respectively. The cost of sales decreased by 42.8% from 2017 to 2018, and decrease by 99.2% from 2018 to 2019, mainly due to the suspension of production by the company since July 2018.

For the six months ended June 30, 2020, the cost of sales of Hongding Chemical was RMB1.0 million, representing a decrease of 33.1% from RMB1.5 million for the same period in 2019, mainly due to the suspension of production by the company since July 2018.

Gross profit and gross profit margin

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Adipic acid	–	–	–	(53,232)	(22,094)
Others	33	21	21	(486)	6,452
	33	21	21	(53,718)	(15,642)

For the three years ended December 31, 2017, 2018 and 2019, the gross (loss) profit of Hongding Chemical were RMB15.6 million, RMB53.7 million and RMB21,000, representing a gross loss margin of -4.4%, -33.4% and 1.2%, respectively. The gross loss decreased by 243.4% from 2017 to 2018, mainly due to the decrease in price of adipic acid. The gross loss increased by 100.0% from 2018 to 2019, mainly due to the suspension of production by the company.

Other expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Losses from debt restructuring	–	–	300,632	–	–
Losses from claims for bankruptcy	–	–	–	435	581
Losses from work suspension	14,836	15,455	30,639	–	–
Others	–	–	1,027	127	95
	14,836	15,455	332,298	562	676

For the three years ended December 31, 2017, 2018 and 2019, other expenses of Hongding Chemical were RMB0.7 million, RMB0.6 million and RMB332.3 million, respectively. Other expenses increased by RMB331.7 million from 2018 to 2019, mainly due to the increase in losses from debt restructuring.

Other gains and losses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Impairment loss of property, plant and equipment	–	–	(20,760)	–	–
Others	2	16	3,036	7	10
	2	16	(17,724)	7	10

For the three years ended December 31, 2017, 2018 and 2019, other gains and losses of Hongding Chemical were gain of RMB10,000, gain of RMB7,000 and loss of RMB17.7 million, respectively, which were mainly impairment loss of property, plant and equipment.

For the six months ended June 30, 2020, Hongding Chemical's other gains were RMB2,000, as opposed to a gain of RMB16,000 for the same period in 2019.

Selling and distribution expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Transportation fee	–	–	–	246	7,047
Salaries and insurance	–	–	–	51	–
Travelling expense	–	–	–	43	–
Other costs	–	–	–	24	44
Total	–	–	–	364	7,091

For the three years ended December 31, 2017, 2018 and 2019, selling and distribution expenses of Hongding Chemical were RMB7.1 million, RMB0.4 million and nil, respectively. The selling and distribution expenses decreased significantly by RMB6.7 million from 2017 to 2018, mainly due to the suspension of production by Hongding Chemical.

Administrative expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Labor costs	978	637	4,747	5,291	3,808
Depreciation expenses	–	–	–	13,606	14,863
Management fee	–	–	–	8,069	4,289
Tax	548	475	980	1,016	1,794
Utility charges	872	–	–	–	2,739
Others	1,088	2,663	2,313	7,180	4,177
Total	3,486	3,775	8,040	35,162	28,930

For the three years ended December 31, 2017, 2018 and 2019, Hongding Chemical's administrative expenses were RMB28.9 million, RMB35.2 million and RMB8.0 million, respectively. The administrative expenses increased by 21.5% from 2017 to 2018, mainly due to the increase in management fee and labor costs. The administrative expenses decreased by 77.1% from 2018 to 2019, mainly due to the decrease in depreciation expenses and management fee.

For the six months ended June 30, 2020, Hongding Chemical's administrative expenses were RMB3.5 million, representing a decrease of 7.7% from RMB3.8 million for the same period in 2019, mainly due to the decrease in bankruptcy expenses.

Finance costs

For the two years ended December 31, 2017 and 2018, the finance costs of Hongding Chemical were RMB27.9 million and RMB10.7 million respectively, which were mainly interest on loans from financial institutions. The interest ceased to accrue after the company entered the stage of bankruptcy reorganization in September 2018. For the year ended December 31, 2019 and the six months ended June 30, 2020, Hongding Chemical's finance costs were zero.

Profit/loss before taxation

The loss before taxation for the three years ended December 31, 2017, 2018 and 2019 was RMB80.2 million, RMB100.5 million and RMB358.0 million, respectively.

For the six months ended June 30, 2020, Hongding Chemical recorded a loss before taxation of RMB18.4 million, as opposed to RMB19.2 million for the same period in 2019.

Loss for the period

As mentioned above, the loss for the period during the three years ended December 31, 2017, 2018 and 2019 was RMB80.2 million, RMB100.5 million and RMB358.0 million, respectively, during the period.

For the six months ended June 30, 2020, Hongding Chemical recorded a loss for the period of RMB18.4 million, as opposed to RMB19.2 million for the same period in 2019.

Overall situation of assets and liabilities

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	362,780	374,377	419,424	444,438
Current assets	32,894	41,560	51,798	349,504
Non-current liabilities	–	–	–	–
Current liabilities	322,098	323,931	371,175	838,294
Net assets/(deficit)	73,576	92,006	100,047	(44,352)

The above amounts of assets and liabilities include the following:

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	362,780	374,377	419,424	444,438
Bank and other loans	–	–	–	300,000
Restructuring debts	316,880	323,142	364,179	–
Amounts due from related parties	8,435	11,027	28,058	299,095
Amounts due to related parties	3,950	–	1,464	479,038

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongding Chemical's total assets were RMB793.9 million, RMB471.2 million, RMB415.9 million and RMB395.7 million, respectively; and its total liabilities were RMB838.3 million, RMB371.2 million, RMB323.9 million and RMB322.1 million, respectively.

Bank and other loans and restructured debts have been waived after the completion of the Restructuring Plan on September 27, 2020. Its net assets after debt restructuring mainly include property, plant and equipment, and a small amount of working capital. As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongding Chemical's property, plant and equipment amounted to RMB444.4 million, RMB419.4 million, RMB374.4 million and RMB362.8 million, respectively.

Liquidity and financial resources

The future operations of Hongding Chemical will be mainly funded by sales proceeds.

Off-balance sheet arrangements

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongding Chemical did not have any material outstanding off-balance sheet guarantees, interest rate swaps, foreign currency and commodity forwards contracts or other off-balance sheet arrangements. Hongding Chemical does not engage in trading activities involving non-exchange traded contracts. In the course of business operations, Hongding Chemical does not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contingent liabilities

Undeclared claims of the Target Company

According to the Restructuring Plan, the creditors which have not yet declared the financial claim will have right to request payment within two years after the completion of Restructuring Plan. Heze Jinda will indemnify Hongding Chemical if such claims arise in accordance with the agreements dated September 19, 2019 and August 20, 2020. As such, the management of Hongding Chemical estimated that no provision should be made in this regard.

Save as the above, as at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongding Chemical did not have any material contingent liabilities.

Pledge of assets

The carrying amount of assets pledged to secure Hongding Chemical's banking facilities as at the dates indicated is as follows:

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	–	–	109,935	122,620
Right-of-use assets	–	–	–	–
	–	–	109,935	122,620

Foreign exchange risk and management

Hongding Chemical's principal business is in the PRC, and all its transactions are settled in RMB, so there is no foreign exchange risk.

Employee and remuneration policy

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the total number of employees of Hongding Chemical was 158, 89, 49 and 12, respectively. Hongding Chemical has entered into a standard employment contract with each full-time employee. Employee compensation includes base pay, variable pay and other benefits, which are determined according to the market rate of each position and the overall performance of each employee.

Material investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and plans for future material investments

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Hongding Chemical did not hold any other material investments, nor had it entered into any material acquisitions or disposals of subsidiaries, associates and joint ventures. As at June 30, 2020, Hongding Chemical had not authorized any plan for other material investments or additions of capital assets.

This Appendix summarises the business and financial results and other financial information of Yongzhi Chemical for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020.

Due to the limited financial records available to the Company and the Deloitte, and the fact that most of the former key personnel responsible for finance and accounting matters of Yongzhi Chemical had left prior to the Group's participation in the management starting from July 2019, the Company is unable to fully ascertain the details and components of certain financial information as reported in Yongzhi Chemical's financial statements for the years ended December 31, 2017, 2018 and 2019 (in respect of the period prior to July 2019) to provide in-depth analysis on the trend and changes of the historical financial results. Also, as the bankruptcy restructuring process of Yongzhi Chemical has been completed and the Group has taken over operation and management of Yongzhi Chemical since July 2019, the Company considers the historical financial figures are not relevant and meaningful for evaluating the current and future performance of Yongzhi Chemical.

BUSINESS AND FINANCIAL RESULTS OF YONGZHI CHEMICAL

Founded in December 2010, Yongzhi Chemical is located in Yuncheng Chemical Industrial Park in Heze. The major manufacturing facilities of Yongzhi Chemical include cyclohexanone facilities with annual production capacity of 100,000 tons, the major products of which include cyclohexanone and alcohol ketone compounds.

Financial indicators

The following table sets forth the financial ratios of Yongzhi Chemical as at the dates and for the years/periods indicated:

Financial indicators	For the six months ended June 30, 2020	For the six months ended June 30, 2019	For the year ended December 31, 2019	For the year ended December 31, 2018	For the year ended December 31, 2017
Gross profit/(loss) margin	(17.1%)	12.0%	(6.2%)	14.1%	(5.6%)
Net profit/(loss) margin	(17.6%)	11.0%	(39.0%)	9.4%	(17.3%)

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
Gearing ratio	–	–	–	(7.3)

Note: The gearing ratio is calculated by dividing total interest-bearing borrowings by total equity as of the end of the year/period.

Revenue

	For the six months ended June 30,		For the year ended December 31,		
	2020	**2019**	**2019**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cyclohexanone	247,744	386,642	737,906	743,990	106,633
Refined alcohol ketone	–	6,633	6,633	118,850	247,263
Others	7,710	9,336	22,044	25,357	22,447
	255,454	402,611	766,583	888,197	376,343

For the three years ended December 31, 2017, 2018 and 2019, the revenues of Yongzhi Chemical were RMB376.3 million, RMB888.2 million and RMB766.6 million, respectively. The revenue increased by 136.0% from 2017 to 2018, mainly due to the significant increase in the sale volume of cyclohexanone. The revenue decreased by 13.7% from 2018 to 2019, mainly due to the decrease in the price of cyclohexanone.

For the six months ended June 30, 2020, Yongzhi Chemical recorded a revenue of RMB255.5 million, representing a decrease of 36.6% from RMB402.6 million for the same period in 2019, mainly due to the decrease in the sale volume and price of cyclohexanone.

Cost of sales

For the three years ended December 31, 2017, 2018 and 2019, the cost of sales of Yongzhi Chemical were RMB397.2 million, RMB762.6 million and RMB814.0 million, respectively. The revenue increased by 92.0% from 2017 to 2018, mainly due to the significant increase in the sale volume of cyclohexanone. The cost of sales increased by 6.7% from 2018 to 2019, mainly due to the increase in the sale volume of cyclohexanone.

For the six months ended June 30, 2020, Yongzhi Chemical recorded a cost of sales of RMB299.0 million, representing a decrease of 15.6% from RMB354.2 million for the same period in 2019, mainly due to the decrease in the sale volume of cyclohexanone and the price of raw materials.

Gross profit and gross profit margin

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cyclohexanone	(46,521)	49,270	(50,963)	111,136	(19,835)
Refined alcohol ketone	–	(2,401)	(2,401)	11,092	670
Others	2,952	1,542	5,945	3,398	(1,725)
	(43,569)	48,411	(47,419)	125,626	(20,890)

For the three years ended December 31, 2017, 2018 and 2019, the gross profit of Yongzhi Chemical was RMB-20.9 million, RMB125.6 million and RMB-47.4 million, representing a gross profit margin of -5.6%, 14.1% and -6.2%, respectively. The gross profit increased by 701.4% from 2017 to 2018, mainly due to the significant increase in the sale volume of cyclohexanone and decrease in the unit cost. The gross profit decreased by 137.7% from 2018 to 2019, mainly due to the decrease in the price of cyclohexanone.

For the six months ended June 30, 2020, Yongzhi Chemical recorded a gross profit of RMB-43.6 million, representing a decrease of 190.0% from RMB48.4 million for the same period in 2019, mainly due to decrease in the sales and price of cyclohexanone.

Other expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Losses from debt restructuring	–	–	198,373	–	–
Losses from claims for bankruptcy	–	–	–	20	30
Others	–	–	–	205	106
	–	–	198,373	225	136

For the three years ended December 31, 2017, 2018 and 2019, other expenses of Yongzhi Chemical were RMB0.1 million, RMB0.2 million and RMB198.4 million, respectively. Other expenses increased by RMB198.1 million from 2018 to 2019, mainly due to the increase in losses from debt restructuring.

Other gains and losses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Impairment loss of property, plant and equipment	–	–	(6,121)	–	–
Others	27	31	8,176	123	4
	27	31	2,055	123	4

For the three years ended December 31, 2017, 2018 and 2019, other gains of Yongzhi Chemical were gain of RMB4,000, gain of RMB0.1 million and other gains of RMB2.1 million, respectively, which were mainly impairment loss of property, plant and equipment.

For the six months ended June 30, 2020, Yongzhi Chemical's other gains were RMB27,000, as opposed to gains of RMB31,000 for the same period in 2019.

Impairment loss, net of reversal

For the three years ended December 31, 2017, 2018 and 2019, Yongzhi Chemical's credit impairment losses were RMB5,000, RMB100,000, and RMB11.9 million respectively, which were mainly impairment losses on trade and other receivables.

Selling and distribution expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Transportation fee	89	520	809	5,105	616
Other costs	–	–	–	5	–
Total	89	520	809	5,110	616

For the three years ended December 31, 2017, 2018 and 2019, Yongzhi Chemical's selling and distribution expenses were RMB0.6 million, RMB5.1 million and RMB0.8 million, respectively. The selling and distribution expenses increased by 729.5% from 2017 to 2018, mainly due to the increase in the transportation fee which is affected by customer requirement. The selling and distribution expenses decreased by 84.2% from 2018 to 2019, mainly due to the decrease in the transportation fee.

For the six months ended June 30, 2020, Yongzhi Chemical's selling and distribution expenses amounted to RMB89,000, representing a decrease of 82.9% from RMB0.5 million for the same period in 2019, mainly due to decrease in the transportation fee.

Administrative expenses

	For the six months ended June 30,		For the year ended December 31,		
	2020	2019	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Labor costs	11	–	–	628	6,387
Depreciation expense	31	184	368	3,239	5,919
Service fee	–	–	–	8,077	4,289
Management fee	–	–	35,093	–	–
Tax	766	662	1,529	2,055	2,323
Utility charges	–	–	–	82	576
Others	670	2,958	5,311	2,368	1,331
Total	1,478	3,804	42,301	16,449	20,825

For the three years ended December 31, 2017, 2018 and 2019, Yongzhi Chemical's administrative expenses were RMB20.8 million, RMB16.4 million and RMB42.3 million, respectively. The administrative expenses dropped by 21.0% from 2017 to 2018, mainly due to the decrease in wages expenses. The administrative expenses increased by 157.2% from 2018 to 2019, mainly due to increase in the management fees paid.

For the six months ended June 30, 2020, Yongzhi Chemical's administrative expenses were RMB1.5 million, representing a decrease of 61.1% from RMB3.8 million for the same period in 2019.

Finance costs

For the two years ended December 31, 2017 and 2018, the finance costs of Yongzhi Chemical were RMB22.7 million and RMB20.2 million respectively, which were mainly interest on loans from financial institutions. The interest ceased to accrue after the company entered the stage of bankruptcy reorganization in September 2018. For the year ended December 31, 2019 and the six months ended June 30, 2020, Yongzhi Chemical's finance costs were nil.

Profit/loss before taxation

As mentioned above, the profits/losses before taxation for the three years ended December 31, 2017, 2018 and 2019 were loss of RMB65.2 million, profit of RMB83.7 million and loss of RMB298.8 million, respectively.

For the six months ended June 30, 2020, Yongzhi Chemical recorded a loss before taxation of RMB45.1 million, as opposed to profit of RMB44.1 million for the same period in 2019.

Profit/loss for the period

The profits/losses for the period for the three years ended December 31, 2017, 2018 and 2019 were loss of RMB65.2 million, profit of RMB83.7 million and loss of RMB298.8 million, respectively.

For the six months ended June 30, 2020, Yongzhi Chemical recorded a loss of RMB45.1 million during the period, as opposed to a profit of RMB44.1 million for the same period in 2019.

Overall situation of assets and liabilities

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	361,368	373,061	403,178	429,941
Current assets	464,568	337,970	386,660	429,180
Non-current liabilities	–	–	–	–
Current liabilities	600,907	440,929	620,963	919,085
Net assets/(deficit)	225,029	270,102	168,875	(59,964)

The above amounts of assets and liabilities include the following:

	As at June 30, 2020	As at December 31, 2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	332,935	344,305	374,422	400,540
Right-of-use assets/prepaid lease payments	28,433	28,756	29,401	29,831
Bank and other loans	–	–	–	437,974
Restructuring debts	382,013	386,645	570,958	–
Amounts due from related parties	356,388	229,967	1,464	338,173
Amounts due to related parties	8,435	5,810	47,591	442,711

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Yongzhi Chemical's total assets were RMB859.1 million, RMB789.8 million, RMB711.0 million and RMB825.9 million, respectively; and its total liabilities were RMB919.1 million, RMB621.0 million, RMB440.9 million and RMB600.9 million, respectively.

Bank and other loans and restructured debts have been waived after the completion of the Restructuring Plan on September 27, 2020. Its net assets after debt restructuring mainly include property, plant and equipment, and a small amount of working capital. As at December 31, 2017, 2018 and 2019 and June 30, 2020, Yongzhi Chemical's property, plant and equipment amounted to RMB400.5 million, RMB374.4 million, RMB344.3 million and RMB332.9 million, respectively.

Liquidity and financial resources

The future operations of Yongzhi Chemical will be mainly funded by sales proceeds.

Off-balance sheet arrangements

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Yongzhi Chemical did not have any material outstanding off-balance sheet guarantees, interest rate swaps, foreign currency and commodity forwards contracts or other off-balance sheet arrangements. Yongzhi Chemical does not engage in trading activities involving non-exchange traded contracts. In the course of business operations, Yongzhi Chemical does not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contingent liabilities

Undeclared claims of the Target Company

According to the Restructuring Plan, the creditors which have not yet declared the financial claim will have right to request payment within two years after the completion of Restructuring Plan. Heze Jinda will indemnify Yongzhi Chemical if such claims arise in accordance with the agreements dated September 19, 2019 and August 20, 2020. As such, the management of Yongzhi Chemical estimated that no provision should be made in this regard.

Save as the above, as at December 31, 2017, 2018 and 2019 and June 30, 2020, Yongzhi Chemical did not have any material contingent liabilities.

Pledge of assets

The carrying amount of assets pledged to secure Yongzhi Chemical's banking facility by Yongzhi Chemical as at the dates indicated is as follows:

	As at June 30, 2020	As at December 31, 2019	As at December 31, 2018	As at December 31, 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	–	–	116,686	159,488
Right-of-use assets	–	–	28,837	29,477
	–	–	145,523	188,965

Foreign exchange risk and management

Yongzhi Chemical's principal business is in the PRC, and all its transactions are settled in RMB, so there is no foreign exchange risk.

Employee and remuneration policy

As at December 31, 2017, 2018 and 2019 and June 30, 2020, the total number of employees of Yongzhi Chemical were 112, 125, 121 and 110, respectively. Yongzhi Chemical has entered into a standard employment contract with each full-time employee. Employee compensation includes base pay, variable pay and other benefits, which are determined according to the market rate of each position and the overall performance of each employee.

Material investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and plans for future material investments

As at December 31, 2017, 2018 and 2019 and June 30, 2020, Yongzhi Chemical did not hold any other material investments, nor had it entered into any material acquisitions or disposals of subsidiaries, associates and joint ventures. As at June 30, 2020, Yongzhi Chemical had not authorized any plan for other material investments or additions of capital assets.

The following is the text of a valuation report prepared by JLL, an independent valuer, in connection with the valuation of the equity interests of the Target Group as at June 30, 2020, for the purpose of incorporation into this circular.

仲量聯行

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Company Licence No.: C-030171

December 8, 2020

The Board of Directors
China Risun Group Limited
Building 4, Block 5, ABP Area,
No. 188, South 4th Ring Road West
Fengtai District, Beijing,
PRC 100070

Dear Sirs,

In accordance with the instructions from China Risun Group Limited ("Risun" or the "Client"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited has undertaken a valuation exercise which requires us to express an independent opinion on the market value of the 100% equity interest in Wuhu Shunri Xinze Equity Investment Partnership (LP) and its subsidiaries (the "Target Group"), as at June 30, 2020 (the "Valuation Date").

The purpose of this valuation is for Risun's internal reference and inclusion in its public disclosure.

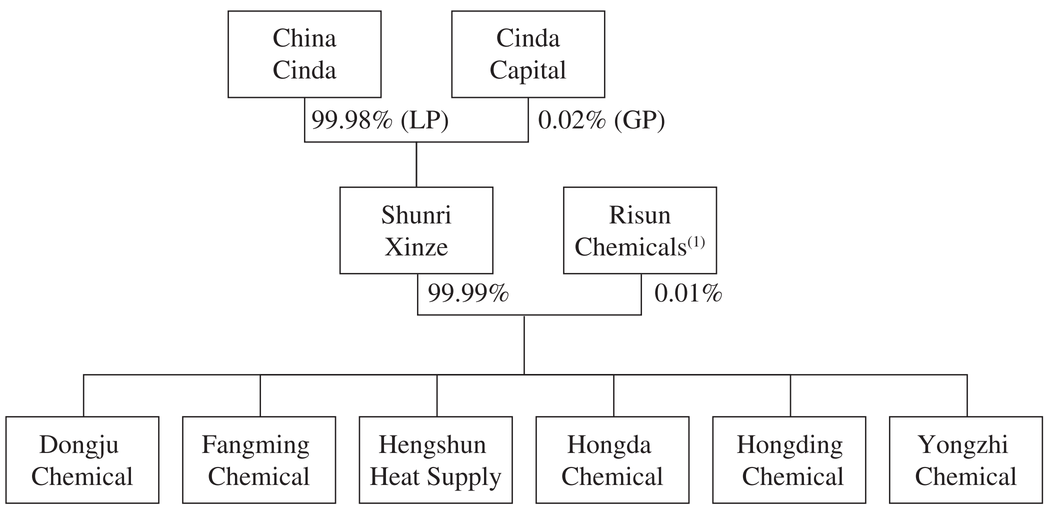
Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

BACKGROUND OF THE TARGET GROUP

Wuhu Shunri Xinze Equity Investment Partnership (LP) is a limited partnership incorporated in the PRC on July 24, 2019. It owns 100% equity interests in Shandong Dongju Chemical Co., Ltd. (the "Dongju Chemical"), Shandong Fangming Chemical Co., Ltd. (the "Fangming Chemical"), Shandong Hengshun Heat Supply Co., Ltd. (the "Hengshun Heat Supply"), Shandong Hongda Chemical Co., Ltd. (the "Hongda Chemical"), Shandong Hongding Chemical Co., Ltd. (the "Hongda Chemical"), and Shandong Yongzhi Chemical Co., Ltd. (the "Yongzhi Chemical") (collectively referred as the "Six Hongye Chemicals Enterprises").

The Six Hongye Chemicals Enterprises were previously sizable enterprises forming an industrial chain under the chemical sector of Hongye Group; and they are principally engaged in the production of coke and coking chemicals and refined chemical products as well as steam supply. Their plants are located in Shandong Dongming Engineering Plastic Industrial Park and Shandong Yuncheng Chemical Industrial Park. The annual production capacity of the Six Hongye Chemicals Enterprises' major equipment includes 1,200,000 tons of coke and coking chemicals, 200,000 tons of caprolactam, 80,000 tons of nylon 6 slices, 230,000 tons of vitriol, 260,000 tons of hydrogen peroxide and 150,000 tons of synthesis ammonia.

The organization chart of the Target Group is extracted as follows:



Key financial information of the Target Group for the period from July 24, 2019 to December 31, 2019 and the six months ended June 30, 2020 are set out as below*:

Target Group *(Units: RMB'000)*	**July 24, 2019 to December 31, 2019**	**January 1, 2020 to June 30, 2020**
Net assets	4,402,769	4,271,431
Revenue *(a)*	949,863	1,760,678
Cost of sales *(b)*	984,612	1,749,227
Gross profit margin	*-3.66%*	*0.65%*
Selling and distribution expenses *(c)*	7,416	17,083
Administrative expenses *(d)*	44,850	81,357
Operating profit *(e = a-b-c-d)*	-87,015	-86,989
Profit margin	*-9.16%*	*-4.94%*
Depreciation and amortization *(f)*	30,776	41,644
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) *(g = e+f)*	-56,239	-45,345

Note:* Financial data per the Accountants' Report contained in Appendix IIA of this circular.

Since the Target Group has been restructuring for the past two years, its financial data of profit and loss are not referential, while the book value of net assets is relatively stable.

SOURCES OF INFORMATION

In conducting our valuation of the 100% equity interest in the Target Group, we have reviewed information from several sources, including, but not limited to:

- Background of the Target Group and relevant corporate information;
- Financial information of the Target Group;
- Business licenses of the Target Group;
- Other operation and market information in relation to the Target Group's business.

We have held discussions with management of the Target Group and conducted market research from public sources to assess the reasonableness and fairness of information provided. We assumed such information reliable and legitimate; and we have relied to a considerable extent on the information provided by the Target Group in arriving at our opinion of value.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by International Valuation Standards Council ("IVSC"). The valuation procedures employed include a review of legal status and economic condition of the Target Group and an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the Target Group. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Target Group;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business including continuity of income;
- Consideration and analysis on the micro and macro economy affecting the subject business; and

- Assessment of the liquidity of the subject business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Target Group.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Given the unique characteristics of the asset, there are substantial limitations for the income approach and the cost approach for valuing the Target Group. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the market approach for the valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

The market approach can be applied through two commonly used methods, namely guideline public company method and the comparable transaction method. The comparable transaction method utilizes information on transactions involving assets that are same or similar to the subject asset. However, for this particular valuation exercise, it is difficult to acquire sufficient and timely information of such kind of transaction. Therefore, in this valuation exercise, the market value of the Target Group is developed through the guideline public company method.

This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of the Target Group. In this valuation, we have considered the following commonly used benchmark multiples:

Benchmark multiple	**Abbreviation**	**Analysis**
Price to book	P/B	**Adopted.** P/B multiples is used on valuation when a company depends significantly on the ability of generating profit from its asset. As the chemical industry requires heavy investment in fixed assets, its book value is reflective of its business scale and the P/B multiple demonstrates the market trading premium or discount on their assets. We consider the P/B multiple as the most suitable method to be conducted in this valuation.
Price to Sales Price to Earnings	P/S and P/E	**Not used.** P/S and P/E are not suitable for asset intensive companies as these multiples are not able to capture the differences in the capital structures amongst the subject and the comparable companies.
Enterprise Value to Sales Enterprise Value to EBITDA	EV/S EV/EBITDA	**Not used.** EV/S and EV/EBITDA are not used in this valuation, as the Target Group has been restructuring for the past two years, its financial data of profit and loss are not referential. It is considered that the result calculated from these multiples may not be reflective of the true and reasonable value of the Target Group.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value.

The following key assumptions in determining the market value of the equity interest have been made:

- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Group;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- We have assumed that the facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge;
- We have been provided with copies of the business licenses and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value;
- We have assumed the accuracy of the financial and operational information provided to us by the Target Group and relied to a considerable extent on such information in arriving at our opinion of value;
- We have assumed the capital structure of the Target Group will not change; and
- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

SUMMARY OF MARKET APPROACH

In determining the financial multiple, a list of comparable companies was identified. The selection criteria include the followings:

- The companies derive most, if not all, of their revenues from the same or closely related industry of the Target Group. i.e., sales of coke, caprolactam, synthetic ammonia, and cyclohexanone and/or related business;
- The comparable companies are searchable in Bloomberg;

- The comparable companies are publicly listed in Hong Kong and the PRC exchange;
- The comparable companies are located in Hong Kong and/or the PRC; and
- P/B multiple as at the Valuation Date, on the companies are available.

During the research process, on a best effort basis, we have identified an exhaustive list of five comparable companies that are engaged in the sale of coke, caprolactam, synthetic ammonia, and cyclohexanone and/or related business. Some of the comparable companies are also involved in businesses related to other chemical products but it is considered that their involvements in other products should not overshadow the similarity of the business nature of the companies. We also consider these companies having a similar profit model by earning a mark up on the price of chemical products. Thus, these five companies are considered to be comparable to the Target Group and adopted in this Valuation. As sourced from Bloomberg, the details of the comparable companies are listed below:

Comparable Company A:	HENAN JINMA ENERGY CO., LTD.
Stock Code:	6885 HK Equity
Listing date:	October 10, 2017
Scope of operation:	Henan Jinma Energy Co., Ltd. manufactures chemical products. The company produces cokes, coal tars, crude benzenes, and other products.
Comparable Company B:	SHAANXI HEIMAO COKING CO., LTD.
Stock Code:	601015 CH Equity
Listing date:	November 5, 2014
Scope of operation:	Shaanxi Heimao Coking Co., Ltd. processes, manufactures, and distributes coking products. The company produces coke, oven gas, coal tar, crude benzene, methanol, and other related products.
Comparable Company C:	LUXI CHEMICAL GROUP CO., LTD.
Stock Code:	000830 CH Equity
Listing date:	August 7, 1998

Scope of operation:	Luxi Chemical Group Co., Ltd. manufactures and markets chemical products. The company produces caprolactam, polycarbonate, methane chloride, and chlorinated paraffin products. Luxi Chemical Group also conducts new materials production and coal chemical businesses domestically and internationally.
Comparable Company D:	CHINA RISUN GROUP LIMITED
Stock Code:	1907 HK Equity
Listing date:	March 15, 2019
Scope of operation:	China Risun Group Limited manufactures and sells carbon materials, alcohol-ether products, and other products.
Comparable Company E:	JIANGSU HUACHANG CHEMICAL CO., LTD.
Stock Code:	002274 CH Equity
Listing date:	September 25, 2008
Scope of operation:	Jiangsu Huachang Chemical Co., Ltd. manufactures basic chemicals, fine chemicals and biochemicals. The company produces synthetic ammonia, soda ash, ammonium chloride, compound fertilizer, amino acids, and other products.

The P/B multiples of the comparable companies are summarized as below:

Ticker	**Company Name**	**P/B Multiple**
6885 HK Equity	HENAN JINMA ENERGY CO., LTD.	0.51
601015 CH Equity	SHAANXI HEIMAO COKING CO., LTD.	0.83
000830 CH Equity	LUXI CHEMICAL GROUP CO., LTD.	1.02
1907 HK Equity	CHINA RISUN GROUP LIMITED	1.15
002274 CH Equity	JIANGSU HUACHANG CHEMICAL CO., LTD.	1.71
	Median	1.02

Financial data retrieved from Bloomberg.

DISCOUNT FOR LACK OF MARKETABILITY (DLOM)

A factor to be considered in valuing closely held companies is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

As there is no specific disclosure requirement for transactions involving non-listed companies in China, no information of such kind is readily available from public filing or announcements and thus no direct analysis on the DLOM can be performed. This limitation on data regarding the non-listed company transactions is similar in other countries. Thus for the analysis of the DLOM, theoretical models and empirical studies are the two most common methodologies for determining the DLOM. Of the theoretical models, the put option model is a commonly recognized method in determining the DLOM. Of the empirical studies, most of the DLOM studies focus on transaction of restricted stock which refers to stock of a company that is not fully transferable (from the stock-issuing company to the person receiving the stock award) until certain conditions (restrictions) have been met.

In this valuation exercise, we have assessed the DLOM using the put option method, which is one of the most used theoretical models. The concept is that when comparing a public share and a private share, holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. The value of put option is determined by "Black Scholes Option Pricing Model" with the following parameters.

Parameters	**June 30, 2020**	**Remarks**
Option Type	European Put	
Spot Price and Exercise Price	1	Refer to *Note 1*
Maturity	2 years	Refer to *Note 2*
Risk Free Rate	2.249%	Yield Rate on 2-Year CNY China Sovereign Curve as at June 30, 2020, from Bloomberg
Volatility	35.15%	With reference to comparable companies as above, from Bloomberg
Implied DLOM	17.07%	

Note 1: At-the-money put option is assumed, that is the stock price equals the strike price which is its freely traded price which can be any price but both are assumed to be 1 (being equal to each other) for present purposes. Put option model is to measure the value of the put option in a scenario where the only difference between two identical securities is that one is marketable with a freely traded price (instead of a fixed strike price) and the other is non-marketable but provided with an option to sell it back also at its freely traded price at the end of the expected restriction period (i.e. the put option), such that the DLOM will be derived by comparing the value of the put option to the stock price.

Note 2: As there is no specific indication of the time to maturity, we have assumed that a liquidity event will occur 2 years after the Valuation Date. A liquidity event is an event, such as IPO, merger or sales, from which the subject asset will have marketability. The assumption of occurrence of a liquidity event is our normal approach to determine the maturity. The type of the liquidity event is not relevant for the purpose of determining the parameter used.

By using the put option method and based on the above assumptions, we apply 17.07% DLOM for this case.

CONTROL PREMIUM

Control Premium is an amount by which the pro-rata value of a controlling interest exceeds the pro-rata value of a non-controlling interest of a business enterprise that reflects the power of a control. Both factors recognize that control owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and do what economic benefits, cause a differential in the per-share value of a control ownership block versus a minority ownership block.

In this valuation exercise, we adopted a control premium of 24.40% which is based on the Control Premium Study published by FactSet Mergerstat, LLC.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account the two factors, including the DLOM and control premium. The calculation of the market value of Target Group as at the Valuation Date is as follows:

	As at June 30, 2020 *(RMB'000 unless otherwise stated)*
P/B multiple (times)	1.02x
Book value of net assets*	4,271,431
Target Value	4,367,096
Less: DLOM@17.07%	745,463
Target Value after DLOM	3,621,633
Add: Control Premium@24.40%	883,678
Target value after DLOM and after Control premium	4,505,311
100% Equity value (Rounded)	4,505,000

Note:* Financial data from Accountants' Report, details of which are contained in Appendix IIA.

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherent subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Risun, the Target Group, and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Group over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

We are instructed to provide our opinion of values as per the Valuation Date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the Valuation Date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, it has come to our attention that since the Valuation Date, the outbreak of Novel Coronavirus disease (COVID-19) has caused significant disruption to economic activities around the world. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the date of this report, it is uncertain how long the disruption will last and to what extent it will affect the economy. As a result, it has caused volatility and uncertainty that values may change significantly and unexpectedly even over short periods. The period required to negotiate a transaction may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the asset. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this Report.

This report is issued subject to our Limiting Conditions as attached.

CONCLUSION OF VALUE

Based on the results of our investigations and analysis, we are of the opinion that the market value of 100% equity interest in the Target Group as at the Valuation Date is reasonably stated at the amount of RMB4,505 million.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M. K. Chan
Executive Director

Note: Mr. Simon M.K. Chan is a fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS) where he now serves on their North Asia Valuation Practice Group. He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the company's/engagement parties' analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the company/engagement parties.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the Board of the company/engagement parties have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the company/engagement parties because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for the internal use by the company/engagement parties. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter and/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

15. This exercise is premised in part on the historical financial information and future forecast provided by the management of the company/engagement parties and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

17. The management or staff of the company/engagement parties and/or its representatives have confirmed to us that the transaction or themselves or the parties involved in the pertained assets or transaction are independent to our firm and JLL in this valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independency in our work, the company/engagement parties and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of the Securities and Futures Ordinance) which were required to be recorded in the register referred to in section 352 of the Securities and Futures Ordinance, or which were required to be notified to the Company and the Stock Exchange (including interests and short positions which they were deemed or taken to have under provisions of the Securities and Futures Ordinance) pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance or the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules were as follows:

Name	Capacity/ nature of interest	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Director			
Mr. Yang Xuegang[(1)]	Interest in controlled corporation	3,116,074,928 (L)	76.19%

(L) denotes long positions

Note:

1. Texson Limited is wholly-owned by Mr. Yang Xuegang. Accordingly, Mr. Yang Xuegang is deemed to be interested in the Shares held by Texson Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

(b) Substantial Shareholders

To the best knowledge of any Director or the chief executive of the Company, as at the Latest Practicable Date, Shareholder who had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the Securities and Futures Ordinance was as follows:

Name of Shareholder	Capacity/ nature of interest	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Texson Limited	Beneficial owner	3,116,074,928 (L)	76.19%

(L) denotes long positions

Save as disclosed above and to the best knowledge of the Directors and the chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance. As at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which should fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, Yang Xuegang, a Director, is a director of Texson Limited, which holds interests or short positions in the shares and underlying shares of the Company that are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group that is not determinable within one year without payment of compensation (other than statutory compensation).

5. COMPETING BUSINESS INTEREST OF DIRECTORS

As at the Latest Practicable Date, to the knowledge of the Directors, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

6. MATERIAL ADVERSE CHANGE

References are made to the profit warning announcement of the Company dated August 10, 2020 in relation to the expected decrease in net profit for the six months ended June 30, 2020, and the interim results announcement of the Company for the six months ended June 30, 2020 dated August 31, 2020. As disclosed in these announcements, the decrease in net profit for the six months ended June 30, 2020 was mainly attributable to (i) the decline in price of coke products from February to April in 2020, leading to narrowing of the price spread, (ii) the decrease in the prices of refined chemicals (mainly benzene and caprolactam) due to the decline in international crude oil prices and the COVID-19 epidemic, and (iii) the impairment provision in fixed assets (mainly the dimethyl ether production facilities) during the period. Despite the decrease in net profit during the six months ended June 30, 2020, the Board believes that the overall operation and financial position of the Group for 2020 remain healthy and stable. The Company will commit itself to creating values for Shareholders in a long-term and sustainable manner.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2019 (being the date up to which the latest published audited accounts of the Company were prepared).

7. SIGNIFICANT LITIGATION AND ARBITRATION

It is advised by the PRC legal adviser of the Company that, in accordance with the ruling of Intermediate People's Court of Heze City, Shandong Province, all debts and liabilities incurred by the six Hongye Chemicals Enterprises prior to the Restructuring Reference Date (namely, September 28, 2018) shall be paid and settled by the bankruptcy administrators by using the equity fund of RMB4.2 billion injected by Shunri Xinze in September 2019, and the six Hongye Chemicals Enterprises will only be responsible for the debts and liabilities incurred after the Restructuring Reference Date. Pursuant the search of the publicly available Internet sources and upon the confirmation of the six Hongye Chemicals Enterprises, as at the Latest

Practicable Date, the significant litigation and arbitration of Target Group actually occurred after the Restructuring Reference Date are as follows:

No.	Name of company	Legal capacity	Accepting institution	Cause of action	Name of counterparty[1]	Time	Stage of proceeding	Amount involved *(RMB)*
1)	Hongda Chemical	Plaintiff	Intermediate People's Court of Heze	Dispute over manager liability	Defendant(s): Hongye Chemical Group Co., Ltd. and other 29 corporate managers Third party(ies): Veolia Energy Management (Heze) Co., Ltd. (威立雅能源管理(菏澤)有限公司)	Case-filing time: February 4, 2020	First instance	111,007,442.36
2)	Hongda Chemical	Respondent	China International Economic and Trade Arbitration Commission, Shanghai Commission	Dispute case of an energy management contract (EMC2)	Applicant(s): Veolia Energy Management (Heze) Co., Ltd. (威立雅能源管理(菏澤)有限公司)	Case-filing time: May 9, 2020	Arbitration hearing	480,729,473.26
3)	Hongda Chemical	Respondent	China International Economic and Trade Arbitration Commission, Beijing Commission	Dispute case of an energy management contract (EMC1)	Applicant(s): Veolia Energy Management (Heze) Co., Ltd. (威立雅能源管理(菏澤)有限公司)	Case-filing time: May 19, 2020	Arbitration hearing	40,154,128.74
4)	Hongda Chemical	Respondent	China International Economic and Trade Arbitration Commission, Beijing Commission	Dispute case of a steam sales agreement	Applicant(s): Veolia Energy Management (Heze) Co., Ltd. (威立雅能源管理(菏澤)有限公司)	Case-filing time: May 19, 2020	Arbitration hearing	200,389,130.29
5)	Hongda Chemical	Defendant	Intermediate People's Court of Jinan	Dispute of patent ownership and copyright infringement	Plaintiff(s): You Tongxiang, Yu Hongyong	Case-filing time: June 24, 2020	First instance	167,000

No.	Name of company	Legal capacity	Accepting institution	Cause of action	Name of counterparty[(1)]	Time	Stage of proceeding	Amount involved *(RMB)*
6)	Hongda Chemical	Joint second defendant	People's Court of Yuncheng	Dispute of a contract	Plaintiff(s): Shandong Yuncheng Rural Commercial Bank Co., Ltd. First defendant(s): Yuncheng Hongfa Engineering Machinery Co., Ltd. (鄆城縣宏發工程機械有限公司) and Hongda Chemical Second defendant(s): Wang Xiukuan and Xia Ailian	Judgment time: July 2, 2019	Judgment of first instance has been made and pending for execution	12,000,000
7)	Hongda Chemical	Third party	High People's Court of Shandong Province	Dispute of a guarantee contract	Appellant(s): Shandong Yuhuang Chemical Co., Ltd. (山東玉皇化工有限公司) Appellee(s): Changjiang Leasing Co., Ltd. (長江租賃有限公司)	Judgment time: June 22, 2020	Judgment of second instance has been made; Hongda Chemical has performed the major debts, while Changjiang Leasing Co., Ltd. (長江租賃有限公司) demanded the remaining guaranteed debts from Shandong Yuhuang Chemical Co., Ltd. (山東玉皇化工有限公司)	65,641,282
8)	Fangming Chemical	Plaintiff	High People's Court of Shandong Province	Dispute of corporate lending	Defendant(s): Shandong Yuhuang Chemical Co., Ltd. (山東玉皇化工有限公司)	August 10, 2020	Judgment of second instance has been made; and pending for execution	105,000,000

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the counterparties in these case are Independent Third Parties.

As at the Latest Practicable Date, save for the abovementioned, no member of the Enlarged Group was engaged in any litigation or arbitration proceedings of material importance, and to the knowledge of the Directors, no litigation or claim of material importance was pending or threatened by or against any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts were entered into by the Enlarged Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular and are or may be material:

8.1 the deed of non-competition dated February 20, 2019 entered into between the Company, Texson and Yang Xuegang, setting out the non-competition undertakings in favour of the Group.

8.2 the deed of indemnity dated February 20, 2019 entered into by Texson and Yang Xuegang with and in favour of the Company (for itself and as trustee for each of the other members of the Group).

8.3 the cornerstone investment agreement entered into between the Company, Lido Trading Limited (力都貿易有限公司), Guotai Junan Capital Limited and Guotai Junan Securities (Hong Kong) Limited on February 22, 2019, pursuant to which Lido Trading Limited subscribed for the Shares issued by the Company as part of the global offering at a total subscription amount of US$18,000,000.

8.4 the cornerstone investment agreement entered into between the Company, Guangzhou Panyu Haiyi Real Estate Development Company, Ltd. (廣州番禺海怡房地產開發有限公司), Guotai Junan Capital Limited and Guotai Junan Securities (Hong Kong) Limited on February 22, 2019, pursuant to which Guangzhou Panyu Haiyi Real Estate Development Company, Ltd. subscribed for the Shares issued by the Company as part of the global offering at a total subscription amount of US$15,000,000.

8.5 the cornerstone investment agreement entered into between the Company, Wide Bridge Limited, Guotai Junan Capital Limited and Guotai Junan Securities (Hong Kong) Limited on February 22, 2019, pursuant to which Wide Bridge Limited subscribed for the Shares issued by the Company as part of the global offering at a total subscription amount of US$15,000,000.

8.6 the share capital increase agreement entered into between Risun Chemicals, Huhehaote Zhongran Urban Gas Development Co., Ltd., Tianjin Baisen Energy Technology Co., Ltd. and Inner Mongolia Zhongran Energy Development Co., Ltd. on August 20, 2019, pursuant to which capital increase was made to Huhehaote Zhongran Urban Gas Development Co., Ltd., details of which are set out in the announcement of the Company dated August 20, 2019.

8.7 the Joint Venture Contract of Lingyuan Risun Iron & Steel Energy Co., Ltd. entered into between Risun Chemicals and Lingyuan Iron & Steel Co., Ltd. on December 9, 2019, pursuant to which both parties have agreed to jointly establish the joint venture, being Lingyuan Risun Iron & Steel Energy Co., Ltd., by way of capital contribution to invest in the construction of the Ancillary Coking Project, details of which are set out in the announcement of the Company dated December 9, 2019.

8.8 the Term Loan Facility Agreement with an amount up to USD150,000,000 entered into among CNC Risun Coking, the Company, CITIC Bank International, Rabobank HK, Natixis HK and the Original Lenders on February 21, 2020, pursuant to which, among other things, the Company has agreed to provide a guarantee in favour of the finance party on the timely performance of all obligations by CNC Risun Coking under the Facility Agreement and other related finance documents, details of which are set out in the announcements of the Company dated February 21, 2020 and March 4, 2020.

8.9 the Transaction Documents, including the Interests Transfer Agreement, the Guarantee Agreement and the Debt Accession Agreement.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts whose name has been referenced or who have given opinions or included their documents in this circular:

Name	Qualification
Deloitte	Certified Public Accountants
JLL	Independent valuer

As at the Latest Practicable Date, Deloitte and JLL have each given and have not withdrawn its written consent to the issue of this circular with the inclusion of its text materials and reference to its name, in the form and context in which they appear.

As at the Latest Practicable date, Deloitte and JLL did not have any equity interest in any member of the Enlarged Group, nor the right to subscribe for or to nominate other persons to subscribe for shares in any member of the Enlarged Group.

As at the Latest Practicable Date, Deloitte and JLL did not have any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group from December 31, 2019 (being the date up to which the latest published audited accounts of the Company were prepared) up to the Latest Practicable Date.

10. GENERAL

(a) None of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group from December 31, 2019 (being the date up to which the latest published audited accounts of the Company were prepared) up to the Latest Practicable Date.

(b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group, which was subsisting and was significant in relation to the business of the enlarged Group.

(c) The company secretary of the Company is Mr. Ho Pui Lam Joseph, a fellow of the Hong Kong Institute of Certified Public Accountants.

(d) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(e) The headquarters of the Company is at Building 4, Block 5, ABP Area, No. 188, South 4th Ring Road West, Fengtai District, Beijing, PRC.

(f) The principal place of business of the Company in Hong Kong is at Room 2001, 20/F, Sino Plaza, 255 Gloucester Road, Causeway Bay, Hong Kong.

(g) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited.

(h) The principal share registrar of the Company is Conyers Trust Company (Cayman) Limited.

(i) In case of any inconsistency between the English and Chinese versions of this circular, the English version shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 2001, 20/F, Sino Plaza, 255 Gloucester Road, Causeway Bay, Hong Kong during normal business hours on any working day (except pubic holidays) from the date of this circular up to and including December 21, 2020:

(a) the Memorandum and Articles of Association of the Company;

(b) the Prospectus;

(c) the annual reports of the Company for the two years ended December 31, 2018 and 2019;

(d) the 2020 interim report of the Company for the six months ended June 30, 2020;

(e) the accountants' report of Shunri Xinze, the full text of which is set out in Appendix IIA of this circular;

(f) the accountants' reports of the six Hongye Chemicals Enterprises, the full text of which is set out in Appendix IIB of this circular;

(g) the report of the Unaudited Pro Forma Financial Information of the Enlarged Group, the full text of which is set out in Appendix III of this circular;

(h) the valuation report on Shunri Xinze, the full text of which is set out in Appendix V of this circular;

(i) the material contracts referred to in the section headed "Material Contracts" of this appendix;

(j) the written consents of the experts referred to in the section headed "Experts and Consents" of this appendix;

(k) the Interests Transfer Agreement;

(l) the Guarantee Agreement;

(m) the Debt Accession Agreement; and

(n) this circular.

China Risun Group Limited
中國旭陽集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1907)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of China Risun Group Limited (the "**Company**") will be held on Wednesday, December 23, 2020 at 10:00 a.m. at Room 2001, 20/F, Sino Plaza, 255 Gloucester Road, Causeway Bay, Hong Kong, for the purposes of:

ORDINARY RESOLUTION

1. "**THAT**:

   a) the purchase in steps of the entire partnership interests of limited partners and general partners of Wuhu Shunri Xinze Equity Investment Partnership (LP) (the "**Transaction**") by Risun Group Limited ("**Risun Chemicals**"), a subsidiary of the Company, pursuant to the Interests Transfer Agreement in relation to Wuhu Shunri Xinze Equity Investment Partnership (LP) dated October 16, 2020 among Risun Chemicals, China Cinda Asset Management Co., Ltd. ("**China Cinda**") and Cinda Capital Management Co., Ltd. ("**Cinda Capital**") (the "**Interests Transfer Agreement**") be and is hereby approved;

   b) the Interests Transfer Agreement entered into by Risun Chemicals and the performance of its obligations under the Interests Transfer Agreement be and are hereby approved, ratified and confirmed;

   c) the guarantee agreement dated October 16, 2020 entered into by the Company, China Cinda and Cinda Capital for the purpose of the Transaction (the "**Guarantee Agreement**") and the performance of its obligations under the Guarantee Agreement be and are hereby approved, ratified and confirmed; and

   d) the board of the Company (or its authorised person) be and is hereby authorized to arrange for the Company or any of its subsidiaries to execute such documents and take such actions as the board may consider necessary or desirable in connection with the Transaction."

By order of the Board
China Risun Group Limited
Mr. Yang Xuegang
Chairman

Hong Kong, December 8, 2020

Notes:

1. A form of proxy for use at the EGM (or any adjournment thereof) is enclosed herewith. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote instead of him/her/it. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member.

2. Where there are joint holders of any share of the Company, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time fixed for holding the EGM (or any adjournment thereof) (for the purpose of the EGM, Monday, December 21, 2020 at 10:00 a.m.).

4. Completion and return of the proxy form in respect of the proposed ordinary resolutions for the EGM will not preclude a member of the Company from attending and voting in person at the EGM (or any adjournment thereof) should he/she so wishes and in such event, the proxy form for the EGM (or any adjournment thereof) will be deemed to have been revoked.

5. All resolutions at the EGM will be taken by poll (except where the chairman decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the results of the poll will be published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.risun.com) in accordance with the Listing Rules.

6. The register of members of the Company will be closed from Tuesday, December 22, 2020 to Wednesday, December 23, 2020 (both days inclusive) for the purpose of determining the right to attend and vote at the EGM, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming EGM, all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, December 21, 2020.

7. The EGM is expected to last for no more than half a working day. Shareholders and their proxies attending the meeting are responsible for their own traveling and accommodation expenses. However, taking into account of the recent development of the COVID-19 epidemic, in order to facilitate the prevention and control of the epidemic and to safeguard the health and safety of the Shareholders and investors, the Company encourages the Shareholders to adopt the appropriate way to vote at the EGM, such as appoint the chairman of the EGM as a proxy to vote on relevant resolution, instead of attending the EGM in person.

As at the date of this notice, the executive Directors are Mr. Yang Xuegang, Mr. Zhang Yingwei, Mr. Han Qinliang, Mr. Wang Fengshan, Mr. Wang Nianping and Mr. Yang Lu; and the independent non-executive Directors are Mr. Kang Woon, Mr. Yu Kwok Kuen Harry and Mr. Wang Yinping.