

**Zibao Metals Recycling Holdings Plc  
Report and Accounts  
for the year ended 31 March 2019**

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

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# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Company Information

|  |  |
|--|--|
| <b>Directors</b>   | Wenjie (“Joe”) Zhou (Executive director and chairman)<br>Jianfeng (“Eddy”) Li (Chief executive officer and executive director)<br>Peter George Greenhalgh (Independent non-executive director)<br>Ajay Kumar Rajpal (Independent non-executive director) |
| <b>Registered Office</b>                                     | Finsgate, 5-7 Cranwood Street<br>London<br>EC1V 9EE  |
| <b>Company Number</b>  | 08724168   |
| <b>Company Secretary</b>                                     | International Registrars Limited<br>5-7 Cranwood Street<br>London<br>EC1V 9EE  |
| <b>Nominated Adviser</b>                                     | SPARK Advisory Partners Limited<br>5 St. John’s Lane<br>London<br>EC1M 4BH   |
| <b>Broker</b>  | SI Capital Limited<br>46 Bridge Street<br>Godalming<br>Surrey<br>GU7 1HL   |
| <b>Solicitors to the Company<br/>as to English law</b>       | Bracher Rawlins<br>77 Kingsway<br>London<br>WC2B 6SR   |
| <b>Legal Advisers to the Company<br/>as to Hong Kong law</b> | Vincent T.K. Cheung, Yap & Co.<br>11/F, Central Building<br>1-3 Pedder Street<br>Central, Hong Kong  |
| <b>Legal Advisers to the Company<br/>as to BVI law</b>       | Maples and Calder<br>53rd Floor<br>The Center<br>99 Queen’s Road<br>Central, Hong Kong   |
| <b>Registrars</b>  | Neville Registrar Limited<br>Neville House<br>18 Laurel Lane<br>Halesowen<br>B63 3DA   |

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Chairman's Statement

### Results (Note: all figures are rounded)

As the Board have been reporting for over a year, the Group has struggled to adapt to the change in legislative environment in China. Revenue decreased by 58% from HKD857.1 million to HKD363.2 million due to significant trading difficulties faced by the Group with a fall in the price of recycled metals and new laws in China reducing the import of scrap metals, reducing the Group's access to inputs

From a gross profit in 2018 of HKD9.3 million, the company has recorded a gross loss of HKD14.4 million in the current period. This is as a result of reduced sales volumes and margins caused by increasingly difficult trading conditions. From an after-tax profit in 2018 of HKD1.8 million this has deteriorated to a loss of HKD64.8 million in the current period.

Administrative expenses increased from HKD7.3 million to HKD9.1 million due to HKD2 million legal & professional cost specifically legal advice on restructuring

The Group has recognised impairment of property, plant and equipment HKD19.8 million, restructuring provisions cost of HKD20 million and amounts written back on intangibles 1.3 million as a result of the significant reduction in sales and the lack of visibility of a return to normal trading volumes.

The cash position decreased from HKD12.3 million to HKD8.9 million due to the fall in revenue as discussed above.

### Trading and Outlook

The new regulations have had a severe impact on the Group, resulting in a significant decrease in revenue. This has been compounded by the limited supply and higher cost of source material of the quality required. To minimise the impact of these factors and to mitigate against the trading losses, the Group has scaled back its operations at the Zhengbao facility. This has resulted in additional costs such as stock write-off, impairment of asset values and provisions for restructuring costs.

The Group has not been able to implement a trading strategy in response to the change in legislative environment, which is highlighted by the poor results in the current period. The future viability of the Group, in its current form, is under review, and an announcement will be made as and when appropriate.

**Wenjie Zhou**

**Chairman**  
**30 September 2019**

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Directors and officers

The current board of Zibao Metals Recycling Holdings Plc (“Company”) consists of two executive directors and two non-executive directors.

### **Wenjie (“Joe”) Zhou, CPA**, Chairman and executive director, aged 51

Joe Zhou is the chairman and executive director of the Company. He is responsible for the strategic planning, development of strategic supplier and customer relationships and finance of the Group.

Joe Zhou is also the non-executive chairman of the Singapore listed Net Pacific Financial Holdings Limited. With over 17 years of experience in the industry of recycling of ferrous and non-ferrous metals, Joe Zhou holds non-executive directorships in various companies involved in the metal recycling business, including Wuzhou Junbao Metals Company Limited, Guixi Huibao Metals Company Limited, Foshan Zibao Metals Company Limited; Ningbo Global Recycling Resources Company Limited, Global Metals Limited and Global Metals America Limited Inc.

In addition, he also invests in property developments and investments in China and Australia, private equity funds in China, fund management and metal recycling related businesses. He graduated from the University of New South Wales, Australia with a Bachelor of Economics (major in Accounting and Economics). He is a Certified Practising Accountant (of Australia).

### **Jianfeng (“Eddy”) Li**, Chief executive officer and executive director, aged 43

Eddy is the chief executive officer and executive director of the Company. He is responsible for the overall management, sales and purchases for the Group.

Eddy Li has over 16 years of experience in the industry of recycling of ferrous and non-ferrous metals, and holds non-executive directorships in Foshan Beifang Guangdian Metals Company Limited, Wuzhou Junbao Metals Company Limited and Guixi Huibao Metals Company Limited, all of which are involved in the metal recycling business.

He holds a Bachelor of Engineering Degree (major in Architecture) from the Guangdong University of Technology.

### **Peter George Greenhalgh**, Independent non-executive director, aged 79

Peter Greenhalgh is a financial consultant. Between 1956 and 1990 he worked for Barclays Bank DCO/International in a variety of positions, mainly overseas, and which latterly included Regional Inspector for the Far East, based in Hong Kong. Between 1990 and 2000 he worked for Henry Ansbacher, a merchant bank, in audit and compliance roles, including that of compliance director. Since leaving Ansbacher he has worked for Hoodless Brennan & Partners Plc (a stockbroker) as projects director and Chancery Lane Finance Limited as managing director.

### **Ajay Kumar Rajpal**, Independent non-executive director, aged 50

Ajay Rajpal is a Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales. Mr. Rajpal has a background in cross-border mergers and acquisitions, financial management and corporate recovery. Mr. Rajpal qualified with Arthur Andersen, and has worked for Smith Industries plc, as well as a number of other international firms.

## **Zibao Metals Recycling Holdings Plc**

**Year ended 31 March 2019**

### **Directors and officers (continued)**

There were two directors who resigned post year end.

**Chor Wei Ong (“Alan Ong”), ACA, CPA**, Executive finance director, aged 50

**Chin Phang Kwok**, non-executive director, aged 53

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Strategic Report

### Review of the business

A review of the business of the Group, together with comments on future development is given in the Chairman's Statement.

### Principal Risks and Uncertainties

The Directors continually monitor, identify and manage the risks and uncertainties affecting the Group. Risk is inherent in all businesses. Set out below are the major risk factors which could have an impact on the Group's long-term performance and the mitigating factors adopted to alleviate these risks. This list does not purport to be an exhaustive summary of the risks affecting the Group.

#### *Political sensitivity*

The export of aluminium and copper for reprocessing has on occasion been treated as an economically sensitive issue for the countries from which such export takes place and historically has been subject to government and regulatory controls in certain jurisdictions (including the UK and the US). Were such controls to be reinstated by any of the countries from which the Group sources its supplies (either directly or indirectly), this could have a material adverse effect on the Group's business.

#### *Insurance risk*

The value of goods traded is high relative to the Group's profits. If a shipment is lost or delayed at sea the Group may be obliged to recover any loss from insurers or other contracting parties. Any delay in recovery will adversely affect the Group's working capital and limit its ability to trade.

#### *Competition risk*

The metal recycling industry in China is highly fragmented with market players scattered throughout the country. Any increase in, or consolidation of, competition in the market may result in pressure on the Group's profit margin and business prospects.

### Financial and capital risk management

The Group has adopted various financial capital risk management policies and procedures which are set out in Note 23 to the financial statements.

### Key Performance Indicators

The key performance indicators currently used by the Group are revenue, gross profit and cash resources.

These are addressed in the Chairman's Statement.

### Employees

The Group has continued to give full and fair consideration to applications made by disabled persons, having regard to their respective aptitudes and abilities, and to ensure that they benefit from training and career development programmes in common with all employees. The Group has continued its policy of employee involvement by making information available to employees through the medium of frequent staff meetings, together with personal appraisals and feedback sessions.

**Wenjie Zhou**

**Director**

**30 September 2019**

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Directors' Report

The directors have pleasure in submitting this report together with the accounts of Zibao Metals Recycling Holdings Plc ('the Company') and its subsidiary undertakings (together 'the Group') for the year ended 31 March 2019.

The Company was formed on 9 October 2013 as Zibao Metals Recycling Holdings Limited ("the Company") and changed to its current style on 28 March 2014. On 20 June 2014 the company gained admission to the Alternative Investment Market (AIM).

The Company was set up as a holding company for Masterpiece Enterprises Limited ("MEL"), a company registered and operating in Hong Kong. The Company acquired its 100% interest in MEL by way of a share for share exchange. This has been accounted for as a group reorganisation in the group accounts.

As the business combination involved entities under common control, the consolidated financial statements are issued in the name of the Group but they are a continuance of MEL.

## Principal Activities

The principal activities of the Group are those of providing products and services to the metal recycling industry.

## Results and dividend

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 20. No dividends are recommended paid in the year.

## Directors and their interests

The directors who held office during the year are as follows:

Wenjie ("Joe") Zhou  
Jianfeng ("Eddy") Li  
Chor Wei Ong ("Alan Ong") (Resigned 3 September 2019)  
Chin Phang Kwok (Resigned 3 September 2019)  
Peter George Greenhalgh  
Ajay Kumar Rajpal

The interests of those directors serving at the year ended 31 March 2019, all of which are beneficial, in the share capital of the Company, were as follows:

|                                  | Shares of 0.1p each | %     |
|----------------------------------|---------------------|-------|
| Wenjie Zhou                      | 58,000,000          | 47.5% |
| Sino Jump Global Inc (note 1)    | 10,000,000          | 8.2%  |
| Add Profit Corporations (note 1) | 10,000,000          | 8.2%  |

Note 1:

Wenjie Zhou owns 100% of the beneficial interest

Except as set out above, none of the Directors or their immediate families had at 31 March 2019, acquired or disposed of since that date, any interest in any shares in the Company or any of its subsidiaries, any rights to subscribe for shares in the Company or any of its Subsidiaries.

On 16 June 2014 the Company granted options on 525,000 ordinary shares to certain directors. The options are exercisable at 8p per share after the first anniversary of Admission, provided that the director remained in office until then.

## Share Capital

Details of the Company's share capital are disclosed in Note 19 of the financial statements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Directors' report (continued)

### Financial Instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are disclosed in Note 23 to the financial statements.

### Statement to Auditors

So far as the directors are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Substantial Shareholdings

As at 20 August 2019, the following interests in 3% or more of the issued ordinary share capital appear in the register:

| Shareholder                         | Number of shares | Percentage of issued share capital |
|-------------------------------------|------------------|------------------------------------|
| Wenjie Zhou                         | 58,000,000       | 47.5%                              |
| Solid Profits International Limited | 24,760,000       | 20.3%                              |
| Sino Jump Global Inc                | 10,000,000       | 8.2%                               |
| Add Profit Corporation              | 10,000,000       | 8.2%                               |
| Liu Jian Jang                       | 9,300,000        | 7.6%                               |

### Payment of Creditors

The Group does not follow any published code or statement on payment practice. However, it is the Group's policy to settle all amounts due to its creditors on a timely basis, taking into account the credit period afforded by each creditor.

### Post Balance Sheet Events

Details of post-balance sheet events are disclosed in Note 29 to the financial statements.

### Directors' Responsibilities

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. By law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the Financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Zibao Metals Recycling Holdings Plc**

**Year ended 31 March 2019**

## **Directors' report (continued)**

### **Listing**

The Company's ordinary shares have been traded on London's AIM Market, since 20 June 2014. SPARK Advisory Partners Limited is the Company's Nominated Advisor and SI Capital Limited is the Broker.

### **Publication of Financial Statements**

The Company's financial statements will be made available on the Company's web-site <http://www.zibaometals.com>. The maintenance and integrity of the website is the responsibility of the directors. The directors' responsibility also extends to the financial statements contained therein.

### **Going Concern**

After making appropriate enquiries, the directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. This is reflected in the section 'Going Concern' in Note 2 to the financial statements.

### **Auditors**

In accordance with Section 485 of the Companies Act 2006, a resolution proposing that Jeffrey's Henry LLP be re-appointed as auditors will be put to the Annual General Meeting.

### **Strategic Report**

In accordance with section 414C(11) of the Companies Act 2006 the Company choose to report the review of the business, the future outlook and the risks and uncertainties faced by the Group in the Strategic Report on page 6.

The Report of the Directors was approved by the Board on 30 September 2019 and signed on its behalf by:

**Wenjie Zhou**

**Director**

**30 September 2019**

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## UK Corporate Governance Statement

### The Corporate Governance Code (the 'Code')

Though full compliance with the Code is not mandatory for the Group, it is the policy of the board to adopt its main principles and comply with its guidelines when it is reasonably practicable to do so. The small size of the Company and its current stage of development mean that it would not be sensible or even possible to adhere to some of the guidelines in the Code.

The Board of Directors of the Company recognises the importance of sound corporate governance and applies The Quoted Companies Alliance Corporate Governance Code (2018) (the 'QCA Code'), which they believe is the most appropriate recognised governance code for a company with shares admitted to trading on the AIM market of the London Stock Exchange. It is believed that the QCA Code provides the Company with the framework to help ensure that a strong level of governance is maintained, enabling the Company to embed the governance culture that exists within the organisation as part of building a successful and sustainable business for all its stakeholders.

The QCA Code has ten principles of corporate governance that the Company has committed to apply within the foundations of the business. These principles are:

1. Establish a strategy and business model which promote long-term value for shareholders;
2. Seek to understand and meet shareholder needs and expectations;
3. Take into account wider stakeholder and social responsibilities and their implications for long term success;
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation;
5. Maintain the board as a well-functioning balanced team led by the Chair;
6. Ensure that between them the directors have the necessary up to date experience, skills and capabilities;
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement;
8. Promote a corporate culture that is based on ethical values and behaviours;
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board; and
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

### Overcoming geographic and time differences

The board is conscious of the need to overcome the difficulties that can arise from the time differences and geographic separations that face directors; both between and within regions.

It is not practical or cost-justified for the whole board to meet face-to-face at every board meeting. So where one or more director is unable to be physically present, use is made of telephone conference calls.

During the course of 2019, there were 3 meetings of the board. All directors were present at all meetings, either in person or by conference call. The Company's chairman attended all of the 3 meetings and in person in Hong Kong.

In addition to the board meeting, there are also frequent but less-formal telephone and email exchanges among directors. On these occasions there may be discussion of monthly management accounts or any other topic a director may wish to raise. These meetings are chaired by the Company's chairman.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Corporate Governance Statement (continued)

In addition to using their influence at board and board Committee meetings, non-executive directors have direct access to the secretary of the board Committees. This individual reports directly to the chairman of the Audit Committee, and has delegated to him all of the routine company secretarial work. By these means, the non-executive directors believe that their roles are being discharged effectively.

### Non-executive directors

It is not thought that the Company is large enough to warrant the formal appointment of a senior non-executive director. Instead, other non-executive directors are actively and regularly consulted by the Chairman and encouraged to provide feedback. Wenjie Zhou and Jianfeng Li as well have maintained a dialogue with major shareholders and these directors have kept the board up to date with shareholders' views.

No formal mechanism exists for appraising the effectiveness of the board as a whole or of the Chairman alone. The Remuneration and Nomination Committee has not recommended that such a process is implemented.

### Composition and effectiveness of the Board

By virtue of his substantial indirect shareholding in the Company, Wenjie Zhou has not been considered to be an independent director. Each of the other two non-executive directors is considered to be 'independent'.

The service agreements for the non-executive directors were agreed by the board before the Admission to AIM, and these have not been changed since. Copies of the service contracts of all current directors' are available for inspection at the Company's registered office and at the location of the AGM for a period before that meeting begins.

All directors may have access to independent professional advice at Company expense if this is felt by them in their own judgement that it is needed to enable them to discharge their duties and that the cost of such advice is reasonable in the circumstances.

Emphasis is placed by the Chairman on the importance of familiarity with the board pack and the contributions made by directors. However, given its size, a formal evaluation of board performance by an outside agency is not believed to be appropriate. Instead, the Chairman's frequent contact with other directors provides sufficient opportunity for frequent and effective two-way 'calibration'.

### Incentive schemes for staff and directors

All staff enjoy a bonus of 1 month, payable after the end of the calendar year if they remain in the employment of the Company. In addition, selected staff will be paid a discretionary bonus that depends upon personal and company performance. The broad guidelines for this are set by the Remuneration Committee. The discretionary bonuses for a few of the most senior staff are also set by that Committee.

Selected senior members of staff participate in the Company's share option scheme and the overall award of grants to such staff is approved by the Remuneration Committee according to the rules of that committee.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Corporate Governance Statement (continued)

### Board Committees

There are two standing Committees of the board. Each committee has written terms of reference approved by the board. These are kept under review and updated as needed. During the year, the Remuneration Committee sat twice, and the Audit and Committee sat twice. All members were present on each occasion.

The membership and the chairmen of board Committees is determined by the board but, given the small number of directors, refreshing membership on a regular or frequent basis is not viable.

The main purposes and general terms of reference of each board Committee are set out below.

#### Remuneration Committee

The Remuneration Committee consists of Chin Phang Kwok and Ajay Rajpal. Chin Phang Kwok has been appointed chairman. The Remuneration Committee monitors the performance of each of the Company's executive Directors and senior executives to ensure they are rewarded fairly for their contribution. The recommendations of the Remuneration Committee are presented to a meeting of the full Board. The remuneration and terms and conditions of appointment of the non-executive directors are set by the Board as a whole.

The duties of the Remuneration Committee are to:

- i Reviewing and recommending the emoluments, pension entitlements and other benefits of the executive directors and as appropriate other senior executives; and
- ii Reviewing the operation of share option schemes and the granting of such options.

#### Audit Committee

The Audit Committee consists of Peter Greenhalgh and Ajay Rajpal. Ajay Rajpal has been appointed chairman. The Audit Committee is responsible for ensuring that the Combined Code is implemented in respect to matters relating to the Company's external audit. In addition, the Committee also discusses the scope of the audit before its commencement and it receives reports from the external auditors. The Committee also recommends the appointment of, and will review the fees of, the external auditors. The Audit Committee meets the external auditors and meets internally at least twice per year. It also meets on an ad hoc basis as required.

The duties of the Audit Committee are to:

- i Review of the annual financial statements and interim reports prior to approval, focusing on changes in accounting policies and practices, major judgemental areas, significant audit adjustments, going concern and compliance with accounting standards, Stock Exchange and legal requirements;
- ii Receive and consider reports on internal financial controls, including reports from the auditors and report their findings to the Group Board;
- iii Consider the appointment of the auditors and their remuneration including reviewing and monitoring of independence and objectivity;
- iv Meet with the auditors to discuss the scope of the audit, issues arising from their work and any matters the auditors wish to raise; and
- v Develop and implement policy on the engagement of the external auditor to supply non-audit services.
- vi Develop and implement policy on the engagement of the internal auditor.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Corporate Governance Statement (continued)

### Board Committees (continued)

The Audit Committee will be provided with details of any proposed related party transactions in order to consider and approve the terms and conditions of such transactions.

### Bribery Act, 2010 (the 'Act')

The Group has in place a full "Anti-bribery Policy" and this is augmented by a "Whistle-blower's Policy". Both have been translated into the Chinese language and all members of staff are required to read and understand the policies and confirm in writing that they have done so.

Under guidelines set by the board, a designated 'Group Compliance Officer' manages the processes and procedures that flow from the policies, in particular the areas perceived to represent most risk. The Group Compliance Officer reports to the board or a board committee as needed.

Since its inception, the board has reviewed the practical implementation of the Anti-bribery Policy and will do so again at least once a year. The basic requirements include ensuring familiarity and acceptance of the policies, risk analysis and maintenance of an 'incident' book.

### Chairman's Corporate Governance Statement:

As Chairman of the Company I have a keen interest in ensuring that an effective and focused Board leads the business and builds upon its successes to date. Strong corporate governance helps underpin the foundations of a solid and successful business. The Board is committed to ensuring good corporate governance, from executive level and throughout the operations of the business. Following the revisions to the AIM Rules for Companies in March 2018, whereby AIM companies are required to comply with a recognised corporate governance code, the decision has been made by the Board that it will adopt the QCA Code. The Directors believe that the QCA Code is the most appropriate recognised governance code for the Company.

As Chairman it is my duty to ensure that good standards of governance are delivered and fed down throughout the organisation. The Board, as a whole, looks to instil a culture across the Company, delivering strong values and behaviours. The Board and executive team have worked tirelessly to bring the business to the place it currently stands, but it will face challenges over the next year due to the regulatory changes which we have announced. Throughout this period the importance of good governance and working for the benefit of all stakeholders has been at the forefront of the Board and executive management. As the Company moves forward I, as Chairman, will work with the Board to build upon the existing values that are in place and ensure that good corporate governance continues to be present within the organisation and delivered throughout the business, ensuring that we grow with foundations of integrity and strong principles for the benefit of all stakeholders.

The corporate governance arrangements that the Board has adopted are intended to ensure that the Company delivers medium and long-term value to its shareholders. The Board maintains dialogue with its investors, providing them with such information on the Company's progress as is permitted by the AIM rules, MAR and the requirements of the relevant legislation.

The Board currently consists of three Independent Non-Executive Directors and three Executive Directors. Whilst the Board recognises that an Executive Chairman is not considered best practice, the Board believes that this arrangement suits the Company at the current time and that the Chairman is integral to the ongoing development of the business.

On behalf of the board,

**Wenjie Zhou**  
**Chairman**  
**30 September 2019**

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Independent Auditors' Report to the members of Zibao Metals Recycling Holdings Plc

### Opinion

We have audited the financial statements of Zibao Metals Recycling Holdings Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the consolidated statements of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of cash flows, the consolidated and company statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profits for the year then ended;
- the group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs UK) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In forming our opinion on the financial statements, which has not been modified in respect of this matter, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss of HKD 64,802,000 during the year ended 31 March 2019 and, at that date, had net current liabilities of HKD 18,567,000. These conditions, along with the other matters explained in note 2 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Independent Auditors' Report (Continued)

| Key audit matter   | How our audit addressed the key audit matter   |
|--|--|
| <p>Impairments of investments and goodwill</p> <ul style="list-style-type: none"><li>- The Parent Company had investment of HKD1,229,000 as at 31 March 2019. The carrying value of the investments had been impaired to estimated recoverable amount in the year.</li><li>- The Group had goodwill of HKD Nil as at 31 March 2019. Goodwill had been fully impaired in the year.</li><li>- The Parent Company had intercompany debtors of HKD Nil as at 31 March 2019. The intercompany debtor had been fully impaired in the year.</li></ul> | <p>Our audit procedures:</p> <ul style="list-style-type: none"><li>- We reviewed the estimates of valuation of investment using different methodologies;</li><li>- We considered whether management had exercised any bias in assumptions used or the outputs produced in the forecasts prepared.</li><li>- We reviewed management's impairment workings and agree their approach.</li><li>- We reviewed the valuation of investment and assessed the recoverability of intercompany debtors held by the parent company.</li></ul> |

### Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

|                                 | Group financial statements  | Company financial statements  |
|---------------------------------|---|---|
| Overall materiality             | HKD756,000 (2018: HKD622,000).  | HKD456,000 (2018: HKD477,000)   |
| How we determined it            | 1.5% of gross assets.   | Average 10% of net profit and 1% of gross assets.   |
| Rationale for benchmark applied | We believe that gross assets is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. | We believe that this is adequate for the parent company as it is a holding company with no revenue. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between HKD 99,000 and HKD 536,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above HKD 38,000 (2018: HKD31,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Independent Auditors' Report (Continued)

### **An overview of the scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of three reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of Zibao Metals Recycling Holdings Plc and the five subsidiaries Masterpiece Limited, Zibao Metals Co., Limited, Global Metal Enterprises Limited, Fine Luck Trading Limited and Qingyun Zheng Bao Metals Limited. The five subsidiaries were individually financially significant and accounted for 100% of the Group's revenue and the Group's absolute loss before tax, i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units.

The Group engagement team performed all audit procedures, with the exception of the audit of five subsidiaries, which were performed by a component auditor in Hong Kong.

Our involvement in the work of the component auditor in Hong Kong included regular communication with a formal meeting arranged following the performance of the procedures. We have been granted full access of the working paper and conducted a review of them.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Independent Auditors' Report (Continued)

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements [and the part of the directors' remuneration report to be audited] are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Independent Auditors' Report (Continued)

However, future

- events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Other matters which we are required to address

We were appointed by the board of directors on 4 July 2014 to audit the financial statements for the period ending 31 March 2019. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 March 2014 to 31 March 2019.

The audit has been designed to detect all material irregularities, including fraud. We believe our tests are sufficient in this regard. The engagement team has remained alert to any indication of fraud or non-compliance with laws and regulations throughout the audit.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

### Use of this report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Zibao Metals Recycling Holdings Plc**

**Year ended 31 March 2019**

**Independent Auditors' Report (Continued)**

**Sudhir Rawal**

**SENIOR STATUTORY AUDITOR**

For and on behalf of Jeffreys Henry LLP, statutory auditor

Finsgate

5-7 Cranwood Street

London

EC1V 9EE

United Kingdom

Date: 30 September 2019

**Zibao Metals Recycling Holdings Plc**  
**Year ended 31 March 2019**

**Consolidated Statement of Comprehensive Income**

|  | Notes | 2019<br>HKD'000     | 2018<br>HKD'000     |
|--|-------|---------------------|---------------------|
| <b>Continuing operations</b>   |       |                     |                     |
| Revenue from contracts with customers  | 4     | 363,228             | 857,145             |
| Cost of sales  |       | (377,678)           | (847,884)           |
| <b>Gross (loss)/profit</b>   |       | <b>(14,450)</b>     | <b>9,261</b>        |
| Other revenue  | 5     | 23                  | 11                  |
| Selling and distribution expenses  |       | (133)               | (139)               |
| Administrative expenses  | 8     | (9,071)             | (7,338)             |
| Other Operating expenses   |       | (20,000)            | -                   |
| Impairment losses  |       | (21,134)            | -                   |
| <b>(Loss)/profit before tax</b>  |       | <b>(64,765)</b>     | <b>1,795</b>        |
| Income tax expense   | 9     | (37)                | (102)               |
| <b>(Loss)/profit for the year</b>  |       | <b>(64,802)</b>     | <b>1,693</b>        |
| <b>Other comprehensive income</b>  |       |                     |                     |
| Foreign exchange differences   |       | (860)               | -                   |
| <b>(Loss)/profit and total comprehensive income for the year</b>                                   |       | <b>(65,662)</b>     | <b>1,693</b>        |
| (Loss)/profit and total comprehensive income for the year attributable to the owners of the Parent |       | (65,662)            | 1,693               |
| <b>(Loss)/earnings per share</b>   |       |                     |                     |
|  |       | <b>2019<br/>HKD</b> | <b>2018<br/>HKD</b> |
| Basic  | 10    | (0.531)             | 0.014               |
| Diluted  |       | (0.531)             | 0.013               |

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Consolidated Statement of Financial Position

|   | Notes | 2019<br>HKD'000 | 2018<br>HKD'000 |
|---|-------|-----------------|-----------------|
| <b>Assets</b>                               |       |                 |                 |
| <b>Non-Current Assets</b>                   |       |                 |                 |
| Property, plant and equipment               | 13    | 17,658          | 40,571          |
| Intangible assets                           | 12    | -               | 1,457           |
|   |       | <hr/>           | <hr/>           |
|   |       | 17,658          | 42,028          |
| <b>Current Assets</b>                       |       |                 |                 |
| Inventories                                 | 14    | 3,055           | 25,792          |
| Trade receivables                           | 15    | 12,100          | 11,440          |
| Prepayments, deposits and other receivables | 15    | 7,261           | 10,066          |
| Tax recoverable                             |       | -               | 2,367           |
| Cash and cash equivalents                   | 16    | 8,943           | 12,275          |
|   |       | <hr/>           | <hr/>           |
|   |       | 31,359          | 61,940          |
| <b>Total Assets</b>                         |       |                 |                 |
|   |       | <hr/> <hr/>     | <hr/> <hr/>     |
|   |       | 49,017          | 103,968         |
| <b>Equity and liabilities</b>               |       |                 |                 |
| Equity attributable to owners               |       |                 |                 |
| Share capital                               | 19    | 15,549          | 15,549          |
| Share Premium                               |       | 42,167          | 42,167          |
| Share based payment reserve                 |       | 662             | 662             |
| Group reorganisation reserve                | 20    | (527)           | (527)           |
| Foreign exchange reserve                    |       | (1,770)         | (910)           |
| Accumulated (Loss)/Retained earnings        |       | (54,881)        | 9,921           |
|   |       | <hr/>           | <hr/>           |
| <b>Total Equity</b>                         |       | 1,200           | 66,862          |
| <b>Non-current liabilities</b>              |       |                 |                 |
| Deferred tax                                | 18    | 118             | 137             |
|   |       | <hr/>           | <hr/>           |
| <b>Total Non-current Liabilities</b>        |       | 118             | 137             |
| <b>Current liabilities</b>                  |       |                 |                 |
| Trade payables                              | 17    | 12,958          | 18,295          |
| Accrued liabilities and other payables      | 17    | 25,609          | 9,500           |
| Tax payable                                 |       | 9,132           | 9,174           |
|   |       | <hr/>           | <hr/>           |
| Total Current Liabilities                   |       | 47,699          | 36,969          |
|   |       | <hr/>           | <hr/>           |
| <b>Total Equity and Liabilities</b>         |       | 49,017          | 103,968         |
|   |       | <hr/> <hr/>     | <hr/> <hr/>     |

# **Zibao Metals Recycling Holdings Plc**

**Year ended 31 March 2019**

## **Consolidated Statement of Financial Position (continued)**

The financial statements were approved by the Board of directors and authorised for issue on 30 September 2019. They were signed on its behalf by:

**Wenjie Zhou**  
**Director**

**30 September 2019**

Company Number: 08724168

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Consolidated Statement of Cash Flows

|   | Notes | 2019<br>HKD'000 | 2018<br>HKD'000 |
|---|-------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>                   |       |                 |                 |
| Net cash from operating activities                            | 26    | (3,985)         | 13,092          |
| Taxation  |       | -               | (776)           |
| Net Cashflow from Operating activities                        |       | (3,985)         | 12,316          |
| <b>Investing activities</b>                                   |       |                 |                 |
| Addition of property, plant and equipment                     |       | (12)            | -               |
| <b>Net cash used in investing activities</b>                  |       | <b>(12)</b>     | <b>-</b>        |
| <b>Net increase / (decrease) in cash and cash equivalents</b> |       | <b>(3,997)</b>  | <b>12,316</b>   |
| Cash and cash equivalents at beginning of the year            |       | 12,275          | 1,288           |
| Decrease in foreign exchange reserve                          |       | 665             | (1,329)         |
| <b>Cash and cash equivalents at the end of the year</b>       |       | <b>8,943</b>    | <b>12,275</b>   |
| Represented by:   |       |                 |                 |
| Bank balances and cash  |       | 8,943           | 12,275          |
|   |       | 8,943           | 12,275          |

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less, as adjusted for any bank overdrafts.

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Consolidated Statement of Changes in Equity

|                                 | Share<br>Capital | Share<br>Premium | Retained<br>Earnings/<br>(Accumul<br>ated<br>Loss) | Share<br>based<br>payment<br>reserve | Group<br>Reorgan-<br>isation<br>Reserve | Foreign<br>exchange<br>reserve | Total         |
|---------------------------------|------------------|------------------|--|--------------------------------------|---|--------------------------------|---------------|
|                                 | HKD'000          | HKD'000          | HKD'000  | HKD'000                              | HKD'000                                 | HKD'000                        | HKD'000       |
| As at 31 March 2017             | 15,549           | 42,167           | 8,228  | 662                                  | (527)                                   | (1,267)                        | 64,812        |
| Profit for the year             | -                | -                | 1,693  | -                                    | -                                       | -                              | 1,693         |
| Foreign exchange<br>differences | -                | -                | -  | -                                    | -                                       | 357                            | 357           |
| As at 31 March 2018             | <u>15,549</u>    | <u>42,167</u>    | <u>9,921</u>                                       | <u>662</u>                           | <u>(527)</u>                            | <u>(910)</u>                   | <u>66,862</u> |
| Loss for the year               | -                | -                | (64,802)   | -                                    | -                                       | -                              | (64,802)      |
| Foreign exchange<br>differences | -                | -                | -  | -                                    | -                                       | (860)                          | (860)         |
| As at 31 March 2019             | <u>15,549</u>    | <u>42,167</u>    | <u>(54,881)</u>                                    | <u>662</u>                           | <u>(527)</u>                            | <u>(1,770)</u>                 | <u>1,200</u>  |

Share capital is the amount subscribed for shares above nominal value.

The Group reorganisation reserve relates to the effect on equity of the group reorganisation. See Note 20.

Accumulated (loss) /Retained earnings represent the cumulative (loss)/profits of the Group attributable to equity shareholders.

Share premium represent the excess of the amount subscribed for share capital over the nominal value of those shares net of issue expenses.

**The notes on pages 28 to 55 are an integral part of these consolidated financial statements.**

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Company Statement of Financial Position

|  | Notes | 2019<br>HKD'000 | 2018<br>HKD'000 |
|--|-------|-----------------|-----------------|
| <b>Assets</b>                                |       |                 |                 |
| <b>Non-Current Assets</b>                    |       |                 |                 |
| Investment in subsidiaries                   | 11    | 1,229           | 30,046          |
| <b>Current Assets</b>                        |       |                 |                 |
| Prepayments and other receivables            | 15    | 45              | 42,955          |
| <b>Total Assets</b>                          |       | <b>1,274</b>    | <b>73,001</b>   |
| <b>Equity and liabilities</b>                |       |                 |                 |
| Equity attributable to owners of the Company |       |                 |                 |
| Share capital                                | 19    | 15,549          | 15,549          |
| Share premium                                |       | 42,167          | 42,167          |
| Share based payment reserve                  |       | 662             | 662             |
| Merger relief reserve                        | 20    | -               | 19,516          |
| Accumulated loss                             |       | (57,344)        | (5,133)         |
| <b>Total Equity</b>                          |       | <b>1,034</b>    | <b>72,761</b>   |
| <b>Current Liabilities</b>                   |       |                 |                 |
| Accrued liabilities and other payables       | 17    | 240             | 240             |
| <b>Total Liabilities</b>                     |       | <b>240</b>      | <b>240</b>      |
| <b>Total Equity and Liabilities</b>          |       | <b>1,274</b>    | <b>73,001</b>   |

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company income statement account.

The loss for the Parent Company for the year was HKD 71,727,000 (2018: loss HKD 2,248,000).

The financial statements were approved by the Board of directors and authorised for issue on 26 September 2019. They were signed on its behalf by:

**Wenjie Zhou**  
Director

30 September 2019

Company Number: 08724168

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Company Statement of Cash Flows

| Notes   | 2019<br>HKD'000 | 2018<br>HKD'000 |
|---|-----------------|-----------------|
| <b>Cash flows from operating activities</b>                       |                 |                 |
| Loss for the year before tax                                      | (71,727)        | (2,248)         |
| Adjustments for:  |                 |                 |
| Share option charge   | -               | -               |
| Charge for Warrants   | -               | -               |
| Decrease/ (Increase) in other receivables                         | 42,910          | 2,248           |
| (Decrease)/ increase in accrued liabilities<br>and other payables | -               | -               |
| Impairment of investments   | 28,817          | -               |
|   | <hr/>           | <hr/>           |
| <b>Net cash used in operating activities</b>                      | -               | -               |
|   | <hr/>           | <hr/>           |
| <b>Cash flows from financing activities</b>                       |                 |                 |
| Dividends paid  | -               | -               |
| Dividends received  | -               | -               |
| Net proceeds from the issue of ordinary<br>shares                 | -               | -               |
|   | <hr/>           | <hr/>           |
| Net cash from financing activities                                | -               | -               |
|   | <hr/>           | <hr/>           |
| <b>Net increase / (decrease) in cash and<br/>cash equivalents</b> | -               | -               |
| Cash and cash equivalents at beginning of<br>the year             | -               | -               |
|   | <hr/>           | <hr/>           |
| <b>Cash and cash equivalents at the end of<br/>the year</b>       | -               | -               |
|   | <hr/> <hr/>     | <hr/> <hr/>     |

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Company Statement of Changes in Equity

|  | Share<br>Capital | Share<br>Premium | Accumulat<br>ed Loss | Share<br>Based<br>Payment<br>Reserve | Merger<br>Relief<br>Reserve | Total         |
|--|------------------|------------------|----------------------|--------------------------------------|-----------------------------|---------------|
|  | HKD'000          | HKD'000          | HKD'000              | HKD'000                              | HKD'000                     | HKD'000       |
| <b>As at 31 March<br/>2017</b>             | <b>15,549</b>    | <b>42,167</b>    | <b>(2,885)</b>       | <b>662</b>                           | <b>19,516</b>               | <b>75,009</b> |
| Total comprehensive<br>income for the year | -                | -                | (2,248)              | -                                    | -                           | (2,248)       |
| <b>As at 31 March<br/>2018</b>             | <b>15,549</b>    | <b>42,167</b>    | <b>(5,133)</b>       | <b>662</b>                           | <b>19,516</b>               | <b>72,761</b> |
| Total comprehensive<br>income for the year | -                | -                | (71,727)             | -                                    | -                           | (71,727)      |
| Utilisation of Merger<br>relief            | -                | -                | 19,516               | -                                    | (19,516)                    | -             |
| <b>As at 31 March<br/>2019</b>             | <b>15,549</b>    | <b>42,167</b>    | <b>(57,344)</b>      | <b>662</b>                           | <b>-</b>                    | <b>1,034</b>  |

Share capital is the amount subscribed for shares at nominal value.

Share premium represent the excess of the amount subscribed for share capital over the nominal value of those shares net of issue expenses.

Merger relief reserve arises from the 100% acquisition of the Masterpiece Group on 10 March 2014 whereby the excess of the fair value of the issued ordinary share capital issued over the nominal value of these shares is transferred to this reserve in accordance with section 612 of the Companies Act 2006.

Accumulated loss represent the cumulative profits of the Group attributable to owners of the Company.

The notes on pages 28 to 55 are an integral part of these consolidated financial statements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements

### 1. General information

Zibao Metals Recycling Holdings Plc is a company incorporated in England on 9 October 2013 under the Companies Act 2006 but domiciled in Hong Kong. It was listed on the AIM market on 20 June 2014. The address of the registered office is given at the start of the annual report. The Group's principal activity is that of trading scrap metals. Further details are set out in the Chairman's Statement on pages 3 and 4.

### 2. Basis of preparation and significant accounting policies

The consolidated financial statements of Zibao Metals Recycling Holdings Plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS's as adopted by the EU), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's experience and knowledge of current events and actions, actual results may ultimately differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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.

#### Going concern

These financial statements have been prepared on the assumption that the Group is a going concern.

When assessing the foreseeable future, the directors have looked at a period of at least twelve months from the date of approval of this report. The forecast cash-flow requirements of the business are contingent upon the ability of the Group to generate future sales and renew long term borrowings. The Group incurred a loss of HK 64,802,000 for the year ended 31 March 2019. Changes in China legislation has resulted in new regulations that have had a severe impact on the group. To reduce continuing losses, the group had decided to cut costs by scaling down its operations of the Zhengbao yard. The Group is planning on divesting away from scrap metals and undertaking a reverse takeover. This should introduce enough cash to the Group to fund its ongoing costs for a period of at least 12 months from the date of authorisation of these accounts.

After making enquiries, the directors firmly believe that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 April 2018 that would be expected to have a material impact on the Group. The new IFRS adopted during the year areas as follows:

- IFRS 9 – Financial instruments
- IFRS 15 – Revenue from contracts with customers including amendments and clarifications.

### Standards, interpretations and amendments to published standards that are not yet effective.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 April 2018 and have not been early adopted:

| Reference | Title                                  | Summary   | Application date of standard                  | Application date of Group |
|-----------|--|---|---|---------------------------|
| IFRS 16   | Lease                                  | IFRS 16 <i>Leases</i> published   | Periods commencing on or after 1 January 2020 | 1 April 2020              |
| IFRIC 23  | Uncertainty over Income Tax Treatments | Clarifies application of recognition and measurement requirements in IAS 12 <i>Income Taxes</i> when there is uncertainty over income tax treatments.           | Periods commencing on or after 1 January 2019 | 1 April 2019              |
| IFRS 17   | Insurance Contracts                    | Applies a model that combines a current balance sheet measurement of insurance contracts with recognition of profit over the period that services are provided. | Periods commencing on or after 1 January 2021 | 1 April 2021              |

The directors anticipate that the adoption of these standards and the interpretations in future periods will have no material impact on the financial statements of the Group.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31<sup>st</sup> March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Zibao.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### (a) Basis of consolidation (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### **Business combinations**

Acquisitions of 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 Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### (a) Basis of consolidation (continued)

#### **Group reorganisation accounting**

The Company acquired its 100% interest in Masterpiece Enterprises Limited ("MEL") in 2014 by way of a share for share exchange. This is a business combination involving entities under common control and the consolidated financial statements are issued in the name of the Group but they are a continuance of those of MEL. Therefore the assets and liabilities of MEL have been recognised and measured in these consolidated financial statements at their pre combination carrying values. The retained earnings and other equity balances recognised in these consolidated financial statements are the retained earnings and other equity balances of the Company and MEL. The equity structure appearing in these consolidated financial statements (the number and the type of equity instruments issued) reflect the equity structure of the Company including equity instruments issued by the Company to effect the consolidation. The difference between consideration given and net assets of MEL at the date of acquisition is included in a group reorganisation reserve.

### (b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off their cost over their estimated useful lives at the following annual rates:

|                                   |             |
|-----------------------------------|-------------|
| Land and building                 | 40-50 years |
| Furniture, fixtures and equipment | 20%-50%     |
| Leasehold improvements            | 5%-20%      |
| Plant and machinery               | 20%         |
| Computer equipment                | 30%         |

Useful lives and depreciation method are reviewed and adjusted if appropriate, at the end of each reporting period.

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

### (c) Intangible assets

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the net assets acquired. In the event that the consideration is less than the fair value of net assets acquired, a gain on bargain purchase is recognised directly in the income statement. Goodwill is reviewed annually for impairment by reference to the recoverable amount of each cash generating unit. The recoverable amount is taken as the higher of the value in use or fair value less costs to sell. Any impairment is recognised immediately as an expense within the income statement and is considered irreversible.

### (d) Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### (e) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using specific identification or first-in, first-out method as appropriate, and in the case of work in progress and finished goods, comprises the cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as an expense in the year in which the reversal occurs.

### (f) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely dependent on those from other assets. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such a reversal is recognised in the profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

### (g) Financial instruments

Financial assets and financial liabilities are initially classified as measured at amortised cost, fair value through other comprehensive income, or fair value through profit and loss when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows expire, or the Company no longer retains the significant risks or rewards of ownership of the financial asset. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Financial assets are classified dependent on the Company's business model for managing the financial and the cash flow characteristics of the asset. Financial liabilities are classified and measured at amortised cost except for trading liabilities, or where designated at original recognition to achieve more relevant presentation. The Company classifies its financial assets and liabilities into the following categories:

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### (h) Financial instruments (continued)

#### Financial assets at amortised cost

The Company's financial assets at amortised cost comprise trade and other receivables. These represent debt instruments with fixed or determinable payments that represent principal or interest and where the intention is to hold to collect these contractual cash flows. They are initially recognised at fair value, included in current and non-current assets, depending on the nature of the transaction, and are subsequently measured at amortised cost using the effective interest method less any provision for impairment.

#### Impairment of trade and other receivables

In accordance with IFRS 9 an expected loss provisioning model is used to calculate an impairment provision. We have implemented the IFRS 9 simplified approach to measuring expected credit losses arising from trade and other receivables, being a lifetime expected credit loss. This is calculated based on an evaluation of our historic experience plus an adjustment based on our judgement of whether this historic experience is likely reflective of our view of the future at the balance sheet date. In the previous year the incurred loss model is used to calculate the impairment provision.

#### Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise loan liabilities, including convertible loan note liability elements, and trade and other payables. They are classified as current and non-current liabilities depending on the nature of the transaction, are subsequently measured at amortised cost using the effective interest method. All convertible loan notes are held at amortised cost and no election has been made to hold them as fair value through profit and loss.

#### Financial assets at fair value through profit and loss

Financial assets at fair value are recognized and measured at fair value using the most recent available market price with gains and losses recognized immediately in the profit and loss.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy').

Level 1 – Quoted prices in active markets

Level 2 – Observable direct or indirect inputs other than Level 1 inputs

Level 3 – Inputs that are not based on observable market

### (i) Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the statement of financial position date, in which case they are presented as non-current liabilities.

Borrowings are initially recorded at fair value, net of transaction costs and subsequently carried for at amortised costs using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings which are due to be settled within twelve months after the statement of financial position date are included in current borrowings in the statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the statement of financial position date and before the financial statements are authorised for issue.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### (j) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in relation to the proceeds of the sale of scrap metals. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised when the metal produced is despatched and received by the customers. The directors consider this in line with when the performance obligation is satisfied and the contract is fulfilled. Standard payment terms are discussed in note 17.

The directors have elected to apply the 'modified retrospective' approach to transition permitted by IFRS 15 under which comparative financial information is not restated. Given the nature of the sales arrangements, with control passing to the customer upon transfer of physical possession, the Company principally satisfies its performance obligations at a point in time as opposed to over a period of time. Therefore, the accounting of revenue under IFRS 15 did not have a material effect on the financial statements as at 1 April 2018 and so no transition adjustment has been made. The Standard has not had a material impact on the accounting policy adopted in respect to revenue as previously disclosed in the 2018 financial statements.

The directors consider that revenue generation relates exclusively to scrap metal sales in China and so no further segmentation is required.

### (k) Cost of sales

Cost of sales consists of all costs of purchase and other directly incurred costs.

Cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the Group from the taxing authorities), if any, and transport, handling and other costs directly attributable to the acquisition of goods. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Cost of conversion primarily consists of hiring charges of subcontractors incurred during the course of conversion.

### (l) Borrowing costs

Borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### (m) 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. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### (m) Taxation (continued)

Deferred tax assets are generally recognised 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 utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the 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 are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise 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 the 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 realised. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income 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.

### (n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

### (o) Provisions and contingencies

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material. Provisions are not recognised for future operating losses.

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

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### (o) Provisions and contingencies (continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### (p) Share Capital

Ordinary shares are classified as equity. Proceeds from issuance of ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital.

### (q) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong Dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which cases, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

The principal exchange rates during the year are set out in the table below:

| Rate compared to HK\$ | Average rate<br>2019 | Average<br>rate 2018 | Year end rate<br>2019 | Year end rate<br>2018 |
|-----------------------|----------------------|----------------------|-----------------------|-----------------------|
| GBP                   | 10.29                | 10.61                | 10.24                 | 11.01                 |
| US Dollar             | 7.84                 | 7.82                 | 7.85                  | 7.84                  |
| Euro                  | 9.08                 | 9.35                 | 8.82                  | 9.67                  |

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### (r) Operating leases

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are treated as reduction of the lease obligation on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Where the Group has the use of assets held under operating leases, payment made under the leases are charged to profit or loss over the accounting periods covered by the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (s) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which employees of the Group render the associated services. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Group participates in the mandatory provident fund for its employees in Hong Kong. Contributions to the funds by the Group and the employees are calculated as a percentage of the employees' basic salaries. The retirement benefit cost charged to the statement of comprehensive income represents contributions payable by the Group to the fund. The Group's contributions to the fund are expensed as incurred and the Group's voluntary contributions are reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. The assets of the fund are held separately from those of the Group in an independently administered fund.
- (iii) Several employees of the Group have completed the required number of years of services to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

Provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material outflow of resources from the Group.

### (t) Segmental reporting

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

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 3. Critical accounting estimates and judgements

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

In the application of the Group's accounting policies, which are described above, management is 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 assumptions that had a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

#### (a) Inventory valuation

Inventory is valued at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. The Group reviews its inventories in order to identify slow-moving merchandise and uses markdowns to clear merchandise. Inventory value is reduced when the decision to markdown below cost is made.

#### (b) Impairment of receivables

The Group's management reviews receivables on a regular basis to determine if any provision for impairment is necessary. The policy for the impairment of receivables of the Group is based on, where appropriate, the evaluation of collectability and ageing analysis of the receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these outstanding's, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, provision for impairment may be required.

#### (c) Income Taxes

The Group is subject to income taxes in Hong Kong and Macau. Significant judgement is required in determining the provision for income taxes and the timing of payment of the related tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

#### (d) Depreciation and amortisation

The Group depreciates property, plant and equipment and amortises the leasehold land and land use rights on a straight-line method over the estimated useful lives. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and the leasehold land and land use rights.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 4. Segmental reporting

In the opinion of the directors, the Group has one class of business, being the trading of scrap materials. The Group's primary reporting format is determined by the geographical segment according to the location of its establishments. There is currently only one geographic reporting segment, which is China. All revenues and costs are derived from the single segment.

### 5. Other revenue

|                      | 2019<br>HKD'000 | 2018<br>HKD'000 |
|----------------------|-----------------|-----------------|
| Sundry income        | 14              | 1               |
| Exchange gains       | -               | -               |
| Bank interest income | 9               | 10              |
| Total other revenue  | <u>23</u>       | <u>11</u>       |

### 6. Personnel expenses and staff numbers (excluding directors)

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2019<br>Number | 2018<br>Number | 2019<br>Number | 2018<br>Number |
| The average number of employees in the year were:               |                |                |                |                |
| - Management  | 8              | 13             | -              | -              |
| - Accounts and administration                                   | 4              | 12             | -              | -              |
| - Production  | 17             | 112            | -              | -              |
|   | <u>29</u>      | <u>137</u>     | <u>-</u>       | <u>-</u>       |
|   | <u>HKD'000</u> | <u>HKD'000</u> | <u>HKD'000</u> | <u>HKD'000</u> |
| The aggregate payroll costs for these persons were:             |                |                |                |                |
| - Staff costs other than mandatory provident fund contributions | 1,835          | 2,392          | -              | -              |
| - Mandatory provident fund contributions for employees          | 37             | 37             | -              | -              |
| Total personnel expense   | <u>1,872</u>   | <u>2,429</u>   | <u>-</u>       | <u>-</u>       |

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 7. Directors' remuneration

|                         | 2019              | 2019                       | 2019         | 2018       |
|-------------------------|-------------------|----------------------------|--------------|------------|
|                         | Salaries and fees | Share based payment charge | Total        | Total      |
|                         | HKD'000           | HKD'000                    | HKD'000      | HKD'000    |
| Wenjie Zhou             | 240               | -                          | 240          | 240        |
| Jianfeng Li             | 240               | -                          | 240          | 240        |
| Chor Wei Ong            | 132               | -                          | 132          | 116        |
| Chin Phang Kwok         | 132               | -                          | 132          | 116        |
| Peter George Greenhalgh | 132               | -                          | 132          | 116        |
| Ajay Kumar Rajpal*      | 132               | -                          | 132          | 116        |
| Total                   | <b>1,008</b>      | <b>-</b>                   | <b>1,008</b> | <b>944</b> |

\* Mr Rajpal is paid through NAS Corporate Services Ltd, a company controlled by him.

### 8. Expenses – analysis by nature

|   | 2019<br>HKD'000 | 2018<br>HKD'000 |
|---|-----------------|-----------------|
| Auditors' remuneration for audit services<br>(company only HKD 211,392 (2018: HKD 164,900)) | 341             | 375             |
| Depreciation on property, plant and equipment   | 858             | 893             |
| Rentals of premises under operating leases  | 191             | 222             |
| Employee benefits (Note 6)  | 1,872           | 2,429           |
| Other expenses  | 5,809           | 3,419           |
| Total administrative expenses   | <b>9,071</b>    | <b>7,338</b>    |

**Zibao Metals Recycling Holdings Plc**  
**Year ended 31 March 2019**

**Notes to the Consolidated Financial Statements (continued)**

**9. Taxation**

The charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

|                                       | <b>2019</b><br><b>HKD'000</b> | <b>2018</b><br><b>HKD'000</b> |
|---------------------------------------|-------------------------------|-------------------------------|
| (Loss)/Profit before taxation         | (64,765)                      | 1,795                         |
|                                       | <u>          </u>             | <u>          </u>             |
| Current income tax expense- Hong Kong | 56                            | 122                           |
| Deferred tax credit                   | (19)                          | (20)                          |
|                                       | <u>          </u>             | <u>          </u>             |
| Total income tax expense / (credit)   | 37                            | 102                           |
|                                       | <u>          </u>             | <u>          </u>             |

The Company is incorporated in the UK but is treated as a Hong Kong resident for tax purposes.

Macau and Hong Kong tax has been provided at a rate of 12% (2018:12%) and 8.25% (2018 - 16.5%) respectively.

There was no unprovided deferred taxation in respect of the year (2018: HKD Nil).

The reconciliation of the current tax expense and the product of accounting profit multiplied by the applicable tax rate is as follows:

|  | <b>2019</b><br><b>HKD'000</b> | <b>2018</b><br><b>HKD'000</b> |
|--|-------------------------------|-------------------------------|
| Accounting profit/(loss)                               | (64,765)                      | 1,992                         |
|  | <u>          </u>             | <u>          </u>             |
| Tax at the domestic tax rate of 8.25%<br>(2018: 16.5%) | (5,343)                       | 299                           |
|  | <u>          </u>             | <u>          </u>             |
| Other adjustments                                      | 5,380                         | (197)                         |
|  | <u>          </u>             | <u>          </u>             |
| Income tax expense                                     | 37                            | 102                           |
|  | <u>          </u>             | <u>          </u>             |

The tax payable of HKD 9,132,634 (2018: 9,174,000) disclosed in the Consolidated Statement of Financial Position includes a liability for the current income tax expense and a provision that has been brought forward as at 1 April 2012 for tax payable in Macau.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 10. Profit per share

Profit per share data is based on the Group profit or loss for the year and the weighted average number of shares in issue.

|  | <b>2019</b>    | <b>2018</b>    |
|--|----------------|----------------|
|  | <b>HKD'000</b> | <b>HKD'000</b> |
| <b>(Loss)/ Profit for the year from:</b>   |                |                |
| Continuing operations used in the calculation of basic and diluted earnings per share from continuing operations | (64,802)       | 1,693          |
|  | <hr/>          | <hr/>          |
| (Loss)/Profit for the year attributable to owners of Company   | (64,802)       | 1,693          |
|  | <hr/>          | <hr/>          |
| Weighted average number of ordinary shares for the purposes of basic earnings per share( 000's)                  | 122,010        | 122,010        |
| diluted earnings per share( 000's)   | 125,453        | 125,453        |
|  | <hr/>          | <hr/>          |
|  | <b>2019</b>    | <b>2018</b>    |
|  | <b>HKD</b>     | <b>HKD</b>     |
| Basic earnings per share   | (0.531)        | 0.014          |
| Diluted earnings per share   | (0.531)        | 0.013          |
|  | <hr/>          | <hr/>          |

The Detailed earnings per share is the same as the basic earnings per share as the loss for the current period has an antidilutive effect.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 11. Fixed asset investments

| Company                | 2019<br>HKD'000 | 2018<br>HKD'000 |
|------------------------|-----------------|-----------------|
| <b>Cost</b>            |                 |                 |
| At 1 April             | 30,046          | 30,046          |
| Addition               | -               | -               |
|                        | <hr/>           | <hr/>           |
| At 31 March            | 30,046          | 30,046          |
|                        | <hr/>           | <hr/>           |
| <b>Impairment</b>      |                 |                 |
| At 1 April             | -               | -               |
| Addition               | 28,817          | -               |
|                        | <hr/>           | <hr/>           |
| At 31 March            | 28,817          | -               |
|                        | <hr/>           | <hr/>           |
| <b>Carrying amount</b> |                 |                 |
| At 31 March            | 1,229           | 30,046          |
|                        | <hr/>           | <hr/>           |

As at 31 March 2019, the company directly and indirectly had the following subsidiaries:

| Name of entity   | Principal activities  | Country of incorporation and place of business | Proportion (%) of equity interest 2018 and 2019 |
|--|---|--|---|
|  |   |  | %   |
| Masterpiece Enterprises Limited                                  | Holding company   | British Virgin Islands                         | 100   |
| Zibao Metals Company Limited*                                    | Trading of scrap materials and provision of management related services | Hong Kong                                      | 100   |
| Top Able Enterprises Limited (Trading as Global Metals Limited)* | Trading of scrap materials and provision of management related services | British Virgin Islands                         | 100   |
| Fine Luck Trading Limited*                                       | Trading of scrap materials  | Hong Kong                                      | 100   |
| Zheng Bao*   | Non-ferrous metal processing and stockholding yard                      | PRC  | 100   |

Zibao Metals Company Limited, Top Able Enterprises Limited, Fine Luck Trading Limited and Zheng Bao are wholly owned subsidiaries of Masterpiece Enterprises Limited.

\*Indirectly held

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 12. Intangible assets

| <b>Group</b>                       | <b>Goodwill<br/>HKD'000</b> | <b>Customer<br/>Relationships<br/>HKD'000</b> | <b>Total<br/>HKD'000</b> |
|------------------------------------|-----------------------------|---|--------------------------|
| <b>Cost</b>                        |                             |   |                          |
| At 1 April 2018                    | 764                         | 1,008   | 1,772                    |
| Additions                          | -                           | -   | -                        |
| At 31 March 2019                   | <u>764</u>                  | <u>1,008</u>                                  | <u>1,772</u>             |
| <b>Amortisation and impairment</b> |                             |   |                          |
| At 1 April 2018                    | -                           | (315)   | (315)                    |
| Amortisation charge for the year   | -                           | (101)   | (101)                    |
| Impairment                         | (764)                       | (592)   | (1,356)                  |
| At 31 March 2019                   | <u>(764)</u>                | <u>(1,008)</u>                                | <u>(1,772)</u>           |
| <b>Carrying amount</b>             |                             |   |                          |
| At 31 March 2019                   | -                           | -   | -                        |
| At 31 March 2018                   | <u>764</u>                  | <u>693</u>                                    | <u>1,457</u>             |

There is an accumulated impairment losses of HKD 1,356,000.

Goodwill has arisen as a result of the purchase of Zheng Bao. Zheng Bao was acquired on 16 February 2015, whose principle activity is the operation of non-ferrous metal processing and stock-holding yard.

The goodwill intangible asset represents the excess consideration paid over and above the fair value of the net assets of Zheng Bao.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

Notes to the Consolidated Financial Statements (continued)

## 13. Property, plant and equipment

| <u>Group</u>                     | Land and buildings | Leasehold improvement | Furniture and fixtures | Computer equipment | Plant and machinery | Total   |
|----------------------------------|--------------------|-----------------------|------------------------|--------------------|---------------------|---------|
|                                  | HKD'000            | HKD'000               | HKD'000                | HKD'000            | HKD'000             | HKD'000 |
| <u>Cost</u>                      |                    |                       |                        |                    |                     |         |
| As at 31 March 2017              | 44,741             | 9,495                 | 488                    | 566                | 1,824               | 57,114  |
| Exchange translation difference  | 1,864              | 391                   | 10                     | -                  | 76                  | 2,341   |
| As at 31 March 2018              | 46,605             | 9,886                 | 498                    | 566                | 1,900               | 59,455  |
| Additions                        | -                  | -                     | -                      | 12                 | -                   | 12      |
| Exchange translation difference  | (1,864)            | (391)                 | (10)                   | -                  | (76)                | (2,341) |
| Disposals/written off            | -                  | -                     | (23)                   | (534)              | -                   | (557)   |
| As at 31 March 2019              | 44,741             | 9,495                 | 465                    | 44                 | 1,824               | 56,569  |
| <u>Accumulated depreciation</u>  |                    |                       |                        |                    |                     |         |
| As at 31 March 2017              | 7,353              | 6,485                 | 487                    | 543                | 1,771               | 16,639  |
| Charge for the year              | 1,097              | 465                   | 1                      | 8                  | 19                  | 1,590   |
| Exchange translation difference  | 306                | 265                   | 10                     | -                  | 74                  | 655     |
| As at 31 March 2018              | 8,756              | 7,215                 | 498                    | 551                | 1,864               | 18,884  |
| Change for the year              | 1,053              | 445                   | -                      | 9                  | 18                  | 1,525   |
| Exchange translation difference  | (350)              | (284)                 | (10)                   | -                  | (75)                | (719)   |
| Disposals/Written off/Impairment | 17,641             | 2,119                 | (23)                   | (533)              | 17                  | 19,221  |
| As at 31 March 2019              | 27,100             | 9,495                 | 465                    | 27                 | 1,824               | 38,911  |
| <u>Carrying amount</u>           |                    |                       |                        |                    |                     |         |
| As at 31 March 2019              | 17,641             | -                     | -                      | 17                 | -                   | 17,658  |
| As at 31 March 2018              | 37,849             | 2,671                 | -                      | 15                 | 36                  | 40,571  |

## 14. Inventories

| Group          | 2019<br>HKD'000 | 2018<br>HKD'000 |
|----------------|-----------------|-----------------|
| Stock in trade | 3,055           | 25,792          |
|                | <u>3,055</u>    | <u>25,792</u>   |

The amount of inventories recognised as an expense during the year is HKD 377,677,878 (2018: HKD 847,884,000).

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 15. Trade and other receivables

|                               | Group           |                 | Company         |                 |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
|                               | 2019<br>HKD'000 | 2018<br>HKD'000 | 2019<br>HKD'000 | 2018<br>HKD'000 |
| Trade receivables             | 12,100          | 11,440          | -               | -               |
| <u>Other receivables:</u>     |                 |                 |                 |                 |
| Deposits                      | 3,859           | 6,599           | -               | -               |
| Prepayments                   | 57              | 105             | 45              | 82              |
| Other receivables (non-trade) | 3,345           | 3,362           | -               | -               |
| Amounts due from subsidiaries | -               | -               | -               | 42,873          |
|                               | <u>7,261</u>    | <u>10,066</u>   | <u>45</u>       | <u>42,955</u>   |

Trade receivables represent amounts receivable on the sale of scrap materials and are included at amortised cost. The average credit period taken is 30 days, there are no provisions for doubtful debts and 2 customers account for 100% of the total trade receivables. There are no debts past due at the year end based on credit term of 30 days with the exception of a balance of HKD 1,122,000 which is expected to be fully recoverable.

### 16. Cash and cash equivalents

| Group  | 2019<br>HKD'000 | 2018<br>HKD'000 |
|--|-----------------|-----------------|
| Cash and bank balances   | 8,943           | 12,275          |
| Cash and bank balances as presented in balance sheets                          | 8,943           | 12,275          |
| Cash and cash equivalents as presented in consolidated statement of cash flows | 8,943           | 12,275          |

### 17. Trade and other payables

|                        | Group           |                 | Company         |                 |
|------------------------|-----------------|-----------------|-----------------|-----------------|
|                        | 2019<br>HKD'000 | 2018<br>HKD'000 | 2019<br>HKD'000 | 2018<br>HKD'000 |
| Trade payables         | 12,958          | 18,295          | -               | -               |
| <u>Other payables:</u> |                 |                 |                 |                 |
| Accrued expenses       | 487             | 679             | 240             | 240             |
| Other payables         | 20,178          | 193             | -               | -               |
| Trade deposit received | 4,944           | 8,628           | -               | -               |
|                        | <u>25,609</u>   | <u>9,500</u>    | <u>240</u>      | <u>240</u>      |

Trade payables represent amounts due for the purchase of scrap materials and administrative expenses and are included at amortised cost. The average credit period taken is 10 days. The directors consider that the carrying amount of trade payables approximates to their fair value. Included within other payables is HKD 20,000,000 relating to restructuring costs.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 18. Deferred tax liability

|                                     | 2019<br>HKD'000 | 2018<br>HKD'000 |
|-------------------------------------|-----------------|-----------------|
| At 1 April                          | 137             | 157             |
| Arising on acquisition of Zheng Bao | -               | -               |
| Deferred tax release                | (19)            | (20)            |
|                                     | <u>118</u>      | <u>137</u>      |
| At 31 March                         | <u>118</u>      | <u>137</u>      |

The deferred tax liability has arisen in respect of taxable timing differences in relation to the customer relationships intangible asset as mentioned in note 14.

### 19. Share capital Group & Company

|  |          |                  | 2019<br>HKD       | 2018<br>HKD       |
|--|----------|------------------|-------------------|-------------------|
|  | Class    | Nominal<br>Value |                   |                   |
| <b>Allotted, issued and fully paid</b> |          |                  |                   |                   |
| 122,010,000                            | Ordinary | £0.01            | 15,549,000        | 15,549,000        |
|  |          |                  | <u>15,549,000</u> | <u>15,549,000</u> |

The ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

### 20. Other reserves

#### Group

|                              | 2019<br>HKD'000 | 2018<br>HKD'000 |
|------------------------------|-----------------|-----------------|
| Group reorganisation reserve | (527)           | (527)           |
|                              | <u>(527)</u>    | <u>(527)</u>    |

The Group reorganisation reserve was a result of the group reorganisation of the old Masterpiece Enterprises Group. Masterpiece Enterprises Limited was formed before the acquisition by Zibao Metals Recycling Holdings Plc to hold the trading subsidiaries. The difference between the nominal value of the shares acquired of the trading subsidiaries and the value of the shares issued by Masterpiece Enterprises in exchange is taken as a reserve movement.

## Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

### Notes to the Consolidated Financial Statements (continued)

#### 20. Other reserves (continued)

| Company               | 2019<br>HKD'000 | 2018<br>HKD'000 |
|-----------------------|-----------------|-----------------|
| Merger relief reserve | -               | 19,516          |

The merger relief reserve arises from the 100% acquisition of the Masterpiece Group on 10 March 2014 whereby the excess of the fair value of the issued ordinary share capital issued over the nominal value of these shares is transferred to this reserve in accordance with section 612 of the Companies Act 2006.

#### 21. Related-party transactions

During the year, the Group entered into the following trading transactions with related parties that are not members of the Group:

|                                  | Sales of goods  |                 | Purchase of goods |                 |
|----------------------------------|-----------------|-----------------|-------------------|-----------------|
|                                  | 2019<br>HKD'000 | 2018<br>HKD'000 | 2019<br>HKD'000   | 2018<br>HKD'000 |
| Wang Kei Yip Development Limited | -               | 11,288          | -                 | -               |

There were no amounts outstanding as at the year end.

Ben Lee is the brother in law of the director, and is a director of Wang Kei Yip Development Limited. Wang Kei Yip Development Limited is therefore a related party. The transaction was at arms length.

The parent Company only statement of financial position includes amounts of HKD nil (2018: HKD 42,873,000) due from Masterpiece Enterprises Limited. Provision of HKD 25,888,916 is included against this balance in the current period. All entities are wholly owned subsidiaries and all balance are repayable on demand.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 22. Operating lease commitments

The Group has commitments for leases with independent third parties in respect of rented premises and staff quarters. The leases have varying terms and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities are as follows:

|                           | 2019<br>HKD'000 | 2018<br>HKD'000 |
|---------------------------|-----------------|-----------------|
| Within one year           | 96              | -               |
| Between two to five years | 72              | -               |
|                           | 168             | -               |
|                           | 168             | -               |

The lease on the rented premises will expire on 31 December 2020. The current rent payable on the leases ranges from HKD 18,500 to HKD 8,000 (2018: HKD 18,500 ) per month.

### 23. Financial instruments

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due to/from related companies, bank balances and cash, trade and other payables, and amounts due to a director. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign exchange risk), credit risk, interest rate risk, liquidity risk and capital management risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The policies for managing these risks are summarised below.

It is the Group's policy not to trade in derivative contracts.

#### (a) Market risk

##### *Foreign currency risk*

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group has no significant foreign currency risk as most of the Group's financial assets and liabilities are denominated in functional currencies of relevant group entities. Accordingly, no quantitative market risk disclosures or sensitivity analysis for currency risk have been prepared.

#### (b) Cash flow and fair value interest rate risk

The Group currently does not have any interest bearing borrowings or financial instruments or any interest rate hedging policy. The director monitors the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise. Accordingly, no quantitative market risk disclosures or sensitivity analysis for interest rate risk have been prepared.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 23. Financial instruments (continued)

#### (c) Liquidity risks (continued)

The Group manages its liquidity risk by maintaining sufficient cash, by monitoring the liquidity requirements in the short and longer term.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. Management monitors the Group's liquidity reserve, comprising cash and cash equivalents (Note 18) on the basis of expected cash flows.

The following tables detail the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

| <b>2019</b>              | <b>On demand or<br/>not later than 1<br/>year<br/>HKD'000</b> | <b>Later than 1<br/>year and not<br/>later than 5<br/>years<br/>HKD'000</b> |
|--------------------------|---|---|
| Trade and other payables | 38,567  | -   |
| Borrowings               | -   | -   |
|                          | <hr/>   | <hr/>   |
|                          | 38,567  | -   |
|                          | <hr/> <hr/>   | <hr/> <hr/>   |
| <b>2018</b>              | <b>On demand or<br/>not later than 1<br/>year<br/>HKD'000</b> | <b>Later than 1<br/>year and not<br/>later than 5<br/>years<br/>HKD'000</b> |
| Trade and other payables | 27,795  | -   |
| Borrowings               | -   | -   |
|                          | <hr/>   | <hr/>   |
|                          | 27,795  | -   |
|                          | <hr/> <hr/>   | <hr/> <hr/>   |

#### (d) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management regularly.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 23. Financial instruments (continued)

#### (d) Credit risk (continued)

The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. In this regard, the director of the Group considers that the Company's credit risk is significantly reduced.

The Group's bank balances and cash are deposited with banks in Hong Kong. The credit risk on liquid funds is limited because the counterparties are banks with good credit-rating.

#### (e) Financial instruments by category

The following table sets out the financial instruments as at the statement of balance sheet date:

|   | 2019<br>HKD'000 | 2018<br>HKD'000 |
|---|-----------------|-----------------|
| Financial assets:                                 |                 |                 |
| Loans and receivables:                            |                 |                 |
| Trade receivables                                 | 12,100          | 11,440          |
| Deposits and other receivables                    | 7,204           | 9,961           |
| Bank balances and cash                            |                 |                 |
| - denominated in HKD                              | 1,011           | 383             |
| - denominated in USD                              | 2,112           | 11,295          |
| - denominated in CNY                              | 5,810           | 596             |
| - denominated in JPY                              | 5               | 1               |
| - denominated in GBP                              | 5               | -               |
|   | <hr/> 28,247    | <hr/> 33,676    |
| Financial liabilities:                            |                 |                 |
| Financial liabilities measured at amortised cost: |                 |                 |
| Trade payables                                    | 12,958          | 18,295          |
| Accrued liabilities and other payables            | 25,609          | 9,500           |
|   | <hr/> 38,567    | <hr/> 27,795    |

#### (f) Capital management risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

No changes were made in the objectives, policies and processes during the years of 2018 and 2019.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 23. Financial instruments (continued)

#### (f) Capital management risk (continued)

The Group monitors capital using a gearing ratio, which is the Group's net debts divided by its total capital. Net debt is calculated as total liabilities as shown in the statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt. The Group's gearing ratios are as follows:

|                              | 2019    | 2018     |
|------------------------------|---------|----------|
|                              | HKD'000 | HKD'000  |
| Total liabilities            | 47,669  | 36,969   |
| Less: Cash and bank balances | (8,943) | (12,275) |
| Net debt                     | 38,726  | 24,694   |
| Total equity                 | 1,200   | 66,862   |
| Total capital                | 39,926  | 91,556   |
| Gearing ratio                | 97%     | 27%      |

### 24. Fair value of financial instruments

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The Group does not currently have any derivative or other financial instruments measured at fair value through profit and loss and the carrying amounts of financial instruments in the balance sheet approximated their fair values.

### 25. Controlling Party

The ultimate controlling party is Wenjie Zhou.

# Zibao Metals Recycling Holdings Plc

Year ended 31 March 2019

## Notes to the Consolidated Financial Statements (continued)

### 26. Cash generated from operations

|  | 2019<br>HKD'000 | 2018<br>HKD'000 |
|--|-----------------|-----------------|
| <b>Cash flows from operating activities before changes in working capital and provisions</b> |                 |                 |
| (Loss)/Profit before income tax  | (64,765)        | 1,795           |
| Adjustments for:   |                 |                 |
| Depreciation on property, plant and equipment  | 1,525           | 1,590           |
| Amortisation   | 101             | 100             |
| Provision for obsolete inventories   | 15,722          | -               |
| Impairment of property, plant and equipment  | 19,778          | -               |
| Impairment of goodwill   | 1,355           | -               |
| (Increase) / decrease in inventories   | 7,016           | 9,361           |
| Decrease/(Increase) in trade receivables   | (660)           | (9,755)         |
| Decrease / (increase) in prepayments, deposits and other receivables                         | 4,789           | (4,405)         |
| (Decrease) / Increase in trade payables  | (5,338)         | 12,190          |
| Increase in accrued liabilities and other payables   | 16,492          | 2,216           |
|  | <hr/>           | <hr/>           |
| <b>Cash used in operations</b>   | <b>(3,985)</b>  | <b>13,092</b>   |
|  | <hr/> <hr/>     | <hr/> <hr/>     |

**Zibao Metals Recycling Holdings Plc**  
**Year ended 31 March 2019**

**Notes to the Consolidated Financial Statements (continued)**

**27. Share options**

On 16 June 2014 the Company granted options on 525,000 ordinary shares to certain directors. The options are exercisable at £0.08 per share after the first anniversary of Admission, provided that the director remains in office until then.

|                              | Number<br>of options | Exercise<br>price | Weighted<br>average<br>remaining<br>contractual<br>life |
|------------------------------|----------------------|-------------------|---|
| At 31 March 2017             | 525,000              | £0.08             | 5 years   |
| Options issued in the period | -                    | -                 | -   |
| At 31 March 2018             | 525,000              | £0.08             | 5 years   |
| Options issued in the period | -                    | -                 | -   |
| At 31 March 2019             | 525,000              | £0.08             | 5 years   |

The fair value of the share options issued in the current period is HKD 0.19 and was derived using the Black Scholes model. The following assumptions were used in the calculation:

|                    |         |
|--------------------|---------|
| Bid price discount | 25%     |
| Risk-free rate     | 1.5%    |
| Volatility         | 60%     |
| Expected life      | 3 years |

Expected volatility is based on a conservative estimate for a newly listed entity. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A charge of HKD nil (2018: HKD nil) has been recognised for the share based payments during the year.

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**28. Warrants**

On 16 June 2014, the Company granted to ZAI warrants to subscribe for 2,917,500 Ordinary shares at an issue price of £0.08 at any time in the period to 16 June 2019.

|                               | Number<br>of warrants | Exercise<br>price | Weighted<br>average<br>remaining<br>contractual<br>life |
|-------------------------------|-----------------------|-------------------|---|
| At 31 March 2017              | 2,917,500             | £0.08             | 5 years   |
| Warrants issued in the period | -                     | -                 | -   |
| At 31 March 2018              | 2,917,500             | £0.08             | 5 years   |
| Warrants issued in the period | -                     | -                 | -   |
| At 31 March 2019              | 2,917,500             | £0.08             | 5 years   |

The fair value of the warrants issued in the current period is HKD 0.19 and was derived using the Black Scholes model. The following assumptions were used in the calculations:

|                    |         |
|--------------------|---------|
| Bid price discount | 25%     |
| Risk-free rate     | 1.5%    |
| Volatility         | 60%     |
| Expected life      | 3 years |

Expected volatility is based on a conservative estimate for a newly listed entity. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A charge of HKD nil (2018: HKD nil) has been recognised for the share based payments in the period as the warrants vested immediately in the prior year upon listing.

**29. Events subsequent to 31 March 2019**

There were no subsequent events.