THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Global New Material International Holdings Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CHESIR

GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED
环球新材国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 06616)

PROPOSED VERY SUBSTANTIAL ACQUISITION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

Deutsche Bank

Unless the context requires otherwise, the capitalised terms used in this cover page shall have the same meanings as defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 7 to 30 of this circular. A notice convening the EGM to be held at 10 a.m. on Monday, 21 July 2025 at 6th Floor, Guangxi Chesir Pearl Material Co., Ltd., Pearlescent Industrial Park, No. 380, Feilu Road, Luzhai Town, Luzhai County, Liuzhou City, Guangxi, China, or any adjournment thereof is set forth on pages GM-1 to GM-2 of this circular.

Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM, i.e. before 10 a.m. on Saturday, 19 July 2025, or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

This circular together with the form of proxy are also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chesir.com).

References to time and dates in this circular are to Hong Kong time and dates.

25 June 2025

CONTENTS

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

"Affiliate(s)"	in relation to any Party, any affiliated company of that Party within the meaning of but applying to entities in all corporate forms and nationalities § 15 of the German Stock Corporation Act from time to time, and shall include (i) in the case of the Company, the Share Purchasers and (ii) in the case of the Seller, the Designated Sellers;
"Agreement"	the agreement dated 25 July 2024 (as amended from time to time) entered into between the Seller, the Company, the Designated Sellers and the Share Purchasers in relation to, among other things, the Transaction;
"Board"	the board of Directors;
"Business"	in relation to each Business Seller, any business carried on by that Business Seller as at Closing which forms part of the Worldwide Business, and Businesses shall be construed accordingly;
"Business Day"	a day, other than a Saturday or Sunday or public holiday in Germany or the PRC, on which banks are open in Frankfurt am Main and Shanghai for general commercial business;
"Business Sellers"	collectively, the members of the Seller Group specified in the Agreement and member of the Seller Group nominated by the Seller to sell and transfer a portion of the Worldwide Business to the Target Companies immediately prior to or at Closing in accordance with the Agreement, and Business Seller means any one of them;
"Closing"	completion of the Transaction in accordance with the Agreement;
"Closing Date"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Closing" under the section headed "Letter from the Board" in this circular;
"Company"	Global New Material International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange (stock code: 06616);

"Conditions"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Conditions precedent" under the section headed "Letter from the Board" in this circular;
"connected person(s)"	has the same meaning ascribed to it under the Listing Rules;
"Debt Free / Cash Free Price"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Consideration" under the section headed "Letter from the Board" in this circular;
"Designated Sellers"	collectively, the Business Sellers and the Share Sellers, and Designated Seller means any one of them;
"Direct Target Companies"	collectively, the entities named in the column "Direct Target Company" as set out in the table in the sub-section "The Agreement - Subject matter" under the section headed "Letter from the Board", and Direct Target Company means any one of them;
"Director(s)"	the director(s) of the Company;
"EBIT"	has the same meaning ascribed to it in the sub-section headed "Basis of Determination of the Consideration" under the section headed "Letter from the Board" in this circular;
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among others, the Agreement, the Transaction and the transactions contemplated thereunder;
"Enlarged Group"	the Company and its subsidiaries following Closing;
"EUR"	Euro, the lawful currency of Eurozone;
"EV/EBIT Multiple"	means the enterprise value to earnings before interest and tax multiple calculated in the following manner: the enterprise value, which is derived from the market capitalisation of the issued shares of company by adding the net cash, being cash subtracting the interest-bearing debts and the non-controlling interests, divided by the earnings before interest and tax of the company for the year ended 31 December 2023;

"Final Price"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Payment terms" under the section headed "Letter from the Board" in this circular;
"FY2023 EBIT"	has the same meaning ascribed to it in the sub-section headed "Basis of Determination of the Consideration" under the section headed "Letter from the Board" in this circular;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Third Party(ies)"	third party(ies) independent of the Company and any of the connected persons of the Company;
"Indirect Target Companies"	collectively, the entities named in the column "Indirect Target Company" as set out in the table in the sub-section "The Agreement - Subject matter" under the section headed "Letter from the Board" which are subsidiaries of the relevant Direct Target Company, and an Indirect Target Company means any one of them;
"Initial Cash Price"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Consideration" under the section headed "Letter from the Board" in this circular;
"Inter-Company Non-Trading Payables"	the amount owed by the Target Companies to the member(s) of the Seller Group, together with accrued interest on the terms of the applicable debt;
"Inter-Company Non-Trading Receivables"	the amount owed to the Target Companies by the member(s) of the Seller Group, together with accrued interest on the terms of the applicable debt;
"Latest Practicable Date"	19 June 2025, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;

"Local Condition"	any clearance, approval, waiver, no-action letter or consent or any waiting period under applicable antitrust, merger, foreign investment rules or other applicable law which the Seller agrees is required to be satisfied in a relevant jurisdiction in order for the Transaction in so far as it relates to that jurisdiction to be consummated in accordance with the Agreement;
"Long Stop Date"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Long Stop Date" under the section headed "Letter from the Board" in this circular;
"Loss Compensation Receivables"	the amounts (if any) owed by Merck Electronics KGaA and Merck KGaA to Merck Gernsheim Holding GmbH and Merck Surface Solutions GmbH, respectively under certain domination and profit and loss transfer agreement for the compensation of losses incurred;
"Manufacturing and Supply Agreement"	the manufacturing and supply agreement to be entered into by and between the Seller or its Affiliates and the Company or its Affiliates with effect from Closing;
"Party(ies)"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Parties" under the section headed "Letter from the Board" in this circular;
"Post-Closing Adjustments"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Consideration" under the section headed "Letter from the Board" in this circular;
"PRC"	the People's Republic of China (for the purpose of this circular and for geographical reference only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan);
"Pre-Closing Adjustments"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Consideration" under the section headed "Letter from the Board" in this circular;
"Profit Transfer Payables"	the amounts (if any) owed to Merck Electronics KGaA and Merck KGaA by Merck Gernsheim Holding GmbH and Merck Surface Solutions GmbH, respectively under certain domination and profit and loss transfer agreement, for the transfer of profits accrued less any prepayments made by the Seller prior to Closing;

"Purchase Price Allocation"	has the same meaning ascribed to it in the sub-section headed "The Agreement - Consideration" under the section headed "Letter from the Board" in this circular;
"Purchaser Group"	the Company and its Affiliates from time to time (including the Share Purchasers);
"Reorganisation"	the pre-Closing reorganisation conducted by transferring the Businesses held by Business Sellers to the Target Companies pursuant to the Agreement;
"RMB"	Renminbi yuan, the lawful currency of the PRC;
"Sale Shares"	all of the issued and outstanding shares (or other equity interests) of such Direct Target Company and all of the issued and outstanding shares (or other equity interests) of other individual or entity owned, directly or indirectly, by such Direct Target Company;
"Seller"	Merck KGaA, a partnership limited by shares incorporated in Germany, the shares of which are listed on the Frankfurt Stock Exchange with the symbol "MRK";
"Seller Group"	the Seller and its Affiliates from time to time (including the Designated Sellers), but excluding the Target Companies;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time;
"Share(s)"	ordinary share(s) of HK$0.10 each in the Company;
"Share Purchasers"	GNMI Germany GmbH, WEALTH MAX CORPORATION LIMITED, GNMI US, Inc. and GNMI Japan GK, being wholly-owned subsidiaries of the Company, and Share Purchaser means any one of them;
"Share Sellers"	collectively, the entities named in the column "Share Sellers" as set out in the table in the sub-section "The Agreement - Subject matter" under the section headed "Letter from the Board" in this circular, and the members of the Seller Group nominated by the Seller to sell and transfer the relevant Sale Shares in accordance with the Agreement after the date of the Agreement, and Share Seller means any one of them;
"Shareholder(s)"	holder(s) of the Share(s);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;

"subsidiary(ies)"	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong);
"Target Companies"	collectively, (i) the Direct Target Companies and the Indirect Target Companies, and (ii) any other Affiliate of the Seller (whether existing on the date of the Agreement or not) that acquires a portion of the Worldwide Business in the course of Reorganisation in accordance with the Agreement, and Target Company means any one of them;
"Total Employee Benefit Indemnification Amount"	the aggregated value of all defined benefit obligations for employee benefit arrangements in the jurisdictions specified in the Agreement, adjusted by the fair market value of any underlying assets to fund the liabilities and obligations in respect of such employee benefit arrangements from Closing;
"Transaction"	the acquisition of the Worldwide Business and the transactions contemplated by the Agreement and the ancillary agreements;
"Unconditional Date"	the first Business Day on or by which all Conditions have been fulfilled (or waived in accordance with the Agreement);
"Worldwide Business"	the worldwide surface solutions business of the Seller Group; and
"%"	per cent.

For the purpose of this circular, translations of Euro into RMB or vice versa have been calculated by using an exchange rate of EUR1.00 equal to RMB7.8. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

For the purpose of this circular, translations of Euro into HK$ or vice versa have been calculated by using an exchange rate of EUR1.00 equal to HK$8.4. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED
环球新材国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 06616)

Executive Directors:
Mr. SU Ertian *(Chairman and Chief Executive Officer)*
Mr. JIN Zengqin
Mr. ZHOU Fangchao *(Joint company secretary)*
Mr. BAI Zhihuan
Ms. ZENG Zhu
Mr. LIM Kwang Su

Non-executive Director:
Mr. HU Yongxiang

Independent Non-executive Directors:
Mr. HUI Chi Fung
Professor HAN Gaorong
Mr. LEUNG Kwai Wah Alex
Professor CHEN Fadong

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

Principal Place of Business in the PRC:
Pearlescent Industrial Park
No. 380, Feilu Road
Luzhai Town, Luzhai County
Liuzhou City
Guangxi Zhuang Autonomous Region
PRC

Principal place of business in Hong Kong:
Room 2703, 27/F,
China Resources Building
26 Harbour Road, Wanchai
Hong Kong

25 June 2025

To the Shareholders

Dear Sir/Madam,

PROPOSED VERY SUBSTANTIAL ACQUISITION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 25 July 2024 in relation to, among other things, the entering into the Agreement and the Transaction.

The purpose of this circular is to provide you with, among other things, (i) further information on the Transaction, the Agreement and the transactions contemplated thereunder; (ii) the financial information and other information of the Group; (iii) the financial information and other information of the Target Companies; (iv) the unaudited pro forma financial information on the Enlarged Group assuming Closing takes place; (v) the notice of the EGM; and (vi) other information as required under the Listing Rules.

THE AGREEMENT

On 25 July 2024 (after trading hours of the Stock Exchange), the Seller, the Company, the Designated Sellers and the Share Purchasers entered into the Agreement. Subject to the terms and conditions of the Agreement, the Seller and the Designated Sellers agreed to sell, and the Company and the Share Purchasers agreed to purchase, the worldwide global surface solutions business of the Seller Group.

The principal terms of the Agreement are summarised below.

Date

25 July 2024

Parties

(i) The Seller;

(ii) The Company;

(iii) The Designated Sellers; and

(iv) The Share Purchasers

(each a "**Party**", and collectively, the "**Parties**".)

Subject matter

Assets to be acquired

The Worldwide Business related to the development, manufacturing, and commercialisation of products such as pigments, cosmetic actives, industrial functionals, and cosmetic fillers.

Geographical locations of the Worldwide Business

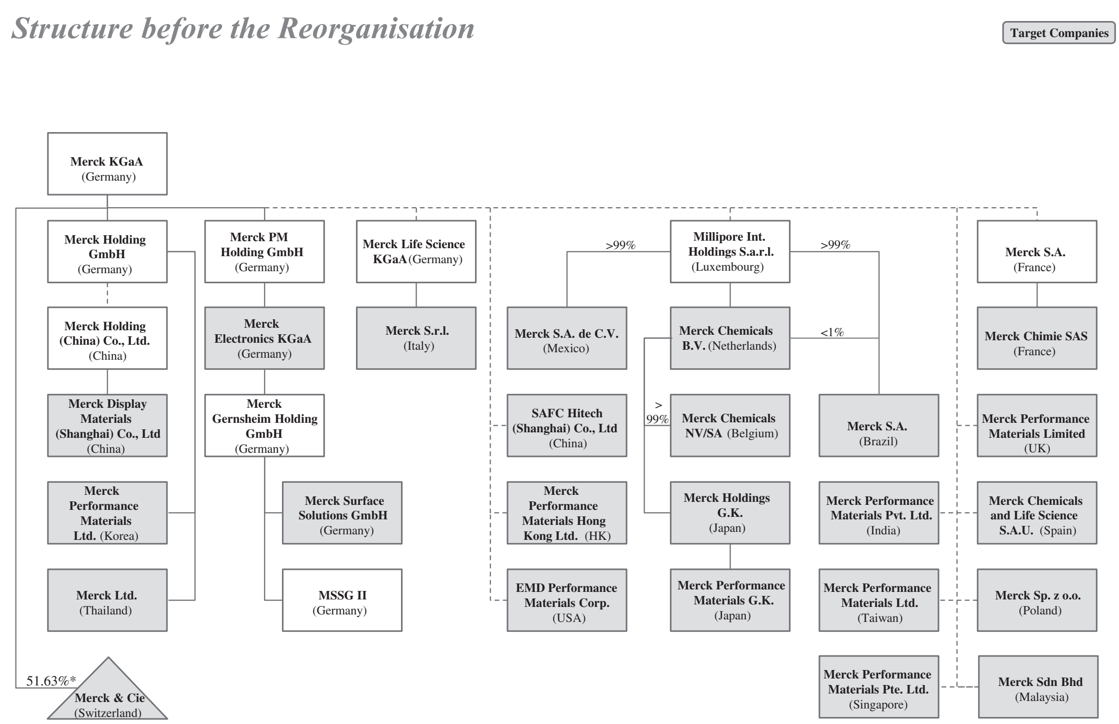
Geographical locations of the Worldwide Business include: Belgium, Brazil, China (including Hong Kong and Taiwan), France, Germany, India, Italy, Korea, Malaysia, Mexico, the Netherlands, Poland, Singapore, Spain, Switzerland, Thailand, the United Kingdom and United States.

The Reorganisation

The Seller Group has been undertaking certain Reorganisation steps to form a Target Group encompassing the Worldwide Businesses prior to Closing. Pursuant to the Reorganisation, the Business Sellers shall transfer the applicable portions of the Worldwide Business held by each Business Seller to the relevant Target Company (whether currently existing as of the date of the Agreement or to be incorporated during the Reorganisation), as specified in the Agreement, immediately prior to or at Closing. As of the Latest Practicable Date, the Reorganisation was ongoing.

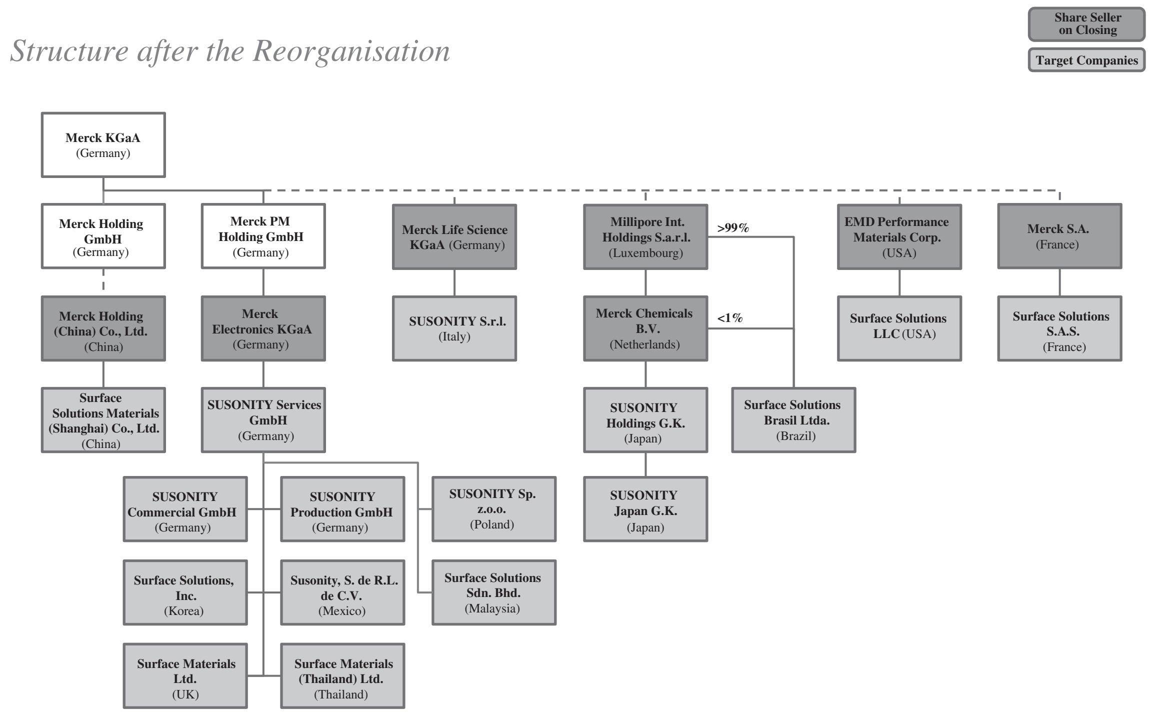
For the avoidance of doubt, the subject of the Transaction is the Worldwide Business. The Reorganisation is intended to consolidate the Worldwide Business into the Target Group. As a result, while the scope of the assets and operations comprising the Worldwide Business will remain fixed, the specific legal entities comprising the Target Group may vary before and after the Reorganisation. Accordingly, the Target Group may consist of different Target Companies at different stages of the Reorganisation, depending on the jurisdictional and operational requirements for transferring the relevant parts of the Worldwide Business.

The shareholding structure of the Target Companies before the Reorganisation is set forth as following:



* *Remaining shareholding held by E. Merck KG*

The shareholding structure of the Target Companies after the Reorganisation is set forth as following:



Consideration

The aggregate consideration for the Transaction is EUR665,000,000 (equivalent to approximately RMB5,187,000,000 or HK$5,586,000,000), which is the net amount after deductions for taxes and other withholdings (if any) required to be made by the Company or any other member of the Purchaser Group ("**Debt Free / Cash Free Price**"), subject to the agreed Pre-Closing Adjustments and Post-Closing Adjustments. The consideration shall be allocated to the respective Share Seller in accordance with the terms of the Agreement ("**Purchase Price Allocation**").

As at the Latest Practicable Date, based on the communication with the relevant regulatory authorities, one amendment to the scope of the Worldwide Business is required to procure the satisfaction of Conditions (i) and (ii). This amendment, which was requested by the German Federal Ministry for Economic Affairs and Energy, involves the exclusion of (i) a supply agreement entered into by the Target Group with a German state-owned company and (ii) certain inventories related to this agreement as of the Closing Date.

The Board has considered the nature and scale of the excluded scope and is of the view that the impact of the exclusion is very minor and immaterial to the overall business and operations of the Target Group. The excluded supply agreement and related inventories do not represent a material portion of the revenue, assets or operations of the Worldwide Business. In particular, sales resulting from this agreement were immaterial, amounting to less than EUR 1.5 million per annum on average.

Accordingly, the Board considers that the exclusion does not affect the commercial rationale or strategic value of the Transaction to the Company. Having taken into account the size of the Transaction and the valuation basis of the consideration, the Board is of the view that, even though no adjustment to the consideration was made, the consideration remains fair and reasonable and in the interests of the Company and its shareholders as a whole.

Save as disclosed above, the parties expect that no further adjustments to the scope will be required.

Initial Cash Price

At Closing, the Company shall pay an initial cash price (the "**Initial Cash Price**") to the Seller which is calculated by adjusting the Debt Free / Cash Free Price in accordance with the provisions in the Agreement by:

(i) deducting (a) the aggregate amount of all estimated external debt of the Target Companies, (b) the estimated Total Employee Benefit Indemnification Amount, (c) the aggregate amount of all estimated Inter-Company Non-Trading Payables, and (d) the estimated Profit Transfer Payables (if any); and

(ii) adding (a) the aggregate amount of all estimated cash and cash equivalent of the Target Companies, (b) the aggregate amount of all estimated Inter-Company Non-Trading Receivables, (c) the estimated Loss Compensation Receivables (if any), and (d) the difference between the estimated working capital and the target working capital of EUR290,000,000 (equivalent to approximately RMB2,262,000,000 or HK$2,436,000,000) if the estimated working capital is greater than the target working capital (or deducting the absolute value of such difference if the aggregate estimated working capital is less than the target working capital).

For the avoidance of doubt, the estimated working capital is calculated based on the Seller's good faith estimate of the working capital of the Target Companies as at Closing, while the target working capital is the level of working capital at Closing agreed between the Company and the Seller based on the average historical working capital of the Target Companies.

The estimated amount of external debt, cash and cash equivalent, working capital, Inter-Company Non-Trading Payables, Inter-Company Non-Trading Receivables, Profit Transfer Payables and Loss Compensation Receivables shall be provided in a preliminary closing statement delivered by the Seller no later than ten Business Days prior to the Closing Date, which represents the Seller's good faith estimate of that amount at 24:00 (local time in the relevant location) on the Closing Date.

Pre-Closing Adjustments

If and to the extent that any of the Reorganisation steps in the relevant local jurisdiction set out in the Agreement cannot be fully implemented between the date of the Agreement and Closing, the Seller and the Company shall cooperate to determine at least ten Business Days prior to Closing an amendment of the Purchase Price Allocation in the Agreement to reflect such deviation and allocating a separate and individual percentage of the Debt Free / Cash Free Price to be paid for the applicable portion of the Worldwide Business to the respective Business Seller ("**Pre-Closing Adjustments**").

As at the Latest Practicable Date, the parties expect that no further adjustments to the Purchase Price Allocation will be required.

Post-Closing Adjustments

Following Closing and subject to the Pre-Closing Adjustments, further post-closing adjustments shall be made in accordance with the provisions in the Agreement ("**Post-Closing Adjustments**") to reflect the difference between the actual amount of external debt, cash and cash equivalent, working capital, Inter-Company Non-Trading Payables, Inter-Company Non-Trading Receivables, Total Employee Benefit Indemnification Amount, Profit Transfer Payables and Loss Compensation Receivables at the Closing Date as well as the allocation of tax benefits and liabilities determined after tax assessments pursuant to the terms of the Agreement and the Seller's good faith estimate of what the amount will be at 24:00 (local time in the relevant location) on the Closing Date.

The Seller shall deliver a draft closing statement prepared in good faith to the Company setting out the actual amount of external debt, cash and cash equivalent, working capital, Inter-Company Non-Trading Payables and Inter-Company Non-Trading Receivables within 90 Business Days after Closing. The Seller shall also engage actuaries to determine the actual amount of Total Employee Benefit Indemnification Amount upon Closing.

The amounts listed as "Profit Transfer Payables" and "Loss Compensation Receivables" are related to profits shared and losses covered between Merck Gernsheim Holding GmbH and Merck Surface Solutions GmbH under existing intragroup agreements. These amounts will be shown in the financial statements of both companies prepared when those agreements end. However, the final confirmed figures can only be known after those financial statements are approved at each company's shareholder meeting, which will happen once the statements are ready.

Subject to the comments of the Company on the draft closing statement, the Post-Closing Adjustments shall reflect, among others, the difference between the estimated and actual amount of external debt, cash and cash equivalent, working capital, Inter-Company Non-Trading Payables, Inter-Company Non-Trading Receivables, Total Employee Benefit Indemnification Amount, Profit Transfer Payables and Loss Compensation Receivables, as well as the allocation of tax benefits and liabilities determined after tax assessments pursuant to the terms of the Agreement. If the Company and the Seller cannot agree on all matters in the draft closing statement, either one can ask for assistance from an independent accounting firm that both sides agree on. If they cannot agree on which firm to use, the head of the German Institute of Public Auditors will choose one. This firm will only look at the issues that are still in dispute and must make a decision within 30 Business Days (unless both parties agree to provide more time). The firm's decision will be final and binding, unless there is a clear and obvious mistake in reaching this decision.

Any payments required to be made pursuant to the Post-Closing Adjustments shall be treated as adjusting the Initial Cash Price, thus resulting after such adjustment in a final price in relation to the Sale Shares and Businesses (the "**Final Price**").

Payment terms

The consideration will be settled in cash and around 40% of the consideration will be funded by the internal financial resources of the Group and the remaining 60% by an acquisition financing facility to be entered into between the Company and a bank.

At Closing, the Company shall pay an Initial Cash Price to the Seller as detailed in the sub-section headed "Consideration" above.

After conducting the Post-Closing Adjustments, whichever of the Seller or the Company is then left with any payment obligation in light of the Post-Closing Adjustments shall make the applicable payment(s) within ten Business Days of the date on which the draft closing statement is agreed or so determined. Where the Post-Closing Adjustments are in relation to the Profit Transfer Payables and Loss Compensation Receivables, the amount shall become due and payable five Business Days after the relevant financial statements have been approved by the respective shareholder meetings.

Conditions precedent

Closing shall be conditional on the following conditions (collectively, the "**Conditions**", and any one of them, a "**Condition**") having been fulfilled or waived in accordance with the Agreement.

The obligation of each Party to consummate the transactions contemplated by the Agreement is subject to the satisfaction, or waiver by the Seller and the Company, of each of the following Conditions:

(i) the clearances, approvals, waivers, no-action letters and consents having been obtained and any waiting periods having expired or been terminated (A) under applicable antitrust, merger control or foreign investment rules set forth in the jurisdictions listed in the Agreement with respect to the consummation of the Transaction and (B) under any other applicable antitrust, merger control, or foreign investment rules or other applicable regulatory law where (1) a filing becomes or turns out to be mandatory between the date of the Agreement and the Closing Date, including due to any relevant changes to any applicable regulatory law or due to the Company's shareholder structure, acquisition structure or financing arrangements or (2) any governmental entity initiates a formal and suspensory review of the Transaction or any parts thereof;

(ii) all conditions or obligations which are contained in the consents, approvals, clearances, confirmations or licences granted (A) by any competent antitrust or merger control authority in the jurisdictions listed in the Agreement, and/or (B) by any other competent governmental entity in the jurisdictions listed in the Agreement or (C) in any other jurisdiction where a filing becomes or turns out to be mandatory between the date of the Agreement and the Closing Date under any other applicable antitrust, merger control or foreign investment rules or other applicable regulatory law or where a governmental entity initiates a formal and suspensory review of the Transaction or any parts thereof and which, in each case of (A), (B) and (C), are required to be satisfied prior to Closing, having been fulfilled or complied with;

(iii) the approval of the Transaction by the Shareholders in accordance with the requirements of the Listing Rules at the EGM; and

(iv) the completion of Reorganization steps in Germany, the United States, Spain, France and Japan (while the transfer of assets of the Worldwide Business to the Target Companies in the aforementioned jurisdictions will only take place on the Closing Date, in accordance with the terms of the Agreement).

To the extent not already prepared and filed as at the date of the Agreement, the Company and, where applicable, the Seller shall prepare and file the notifications necessary for the fulfilment of the abovementioned Conditions (i) and (ii) within thirty Business Days from the date of the Agreement. The Company shall be responsible for the satisfaction of the abovementioned Conditions (i) to (iii).

As at the Latest Practicable Date, the abovementioned Conditions (i) and (ii) have been satisfied. Conditions (iii) and (iv) are non-waivable.

The Company shall, and shall cause its Affiliates to propose, negotiate, offer to commit to and effect (and if such offer is accepted, commit to and effect), by consent decree, undertaking, hold separate order, or otherwise,

(i) the sale, divestiture, licence or disposition of assets or businesses (a) which are part of the Worldwide Business or (b) which the Company may (directly or indirectly) hold in the United States or Europe at any point in time; and

(ii) any operational restrictions or limitations on any assets or businesses (including assets or businesses which are part of the Worldwide Business and any other assets or businesses which the Company may hold at any point in time),

as may be required in order to obtain any waiting period expirations or terminations, clearances, approvals, waivers, no-action letters and consents, or to avoid the entry of, or to effect the dissolution of or vacate or lift, any decrees, judgments, injunctions or orders, under applicable antitrust, merger control or foreign investment rules required or otherwise agreed between the Seller and the Company as appropriate to procure the satisfaction of the abovementioned Conditions (i) and (ii) within applicable phase I, or, if not possible despite the Company having complied with its obligations relating to the Conditions and required by any governmental entity, any applicable phase II proceedings, and, in any event, by the Long Stop Date or the Extended Long Stop Date.

If, in the Seller's reasonable discretion, Closing is expected to occur on any date that is not the first day of a calendar year, the obligation of the Seller and the Designated Sellers to consummate the transactions contemplated by the Agreement is subject to the approval of change of fiscal year of specified entities by competent tax authorities and registration with the commercial register, unless such Condition is waived by the Seller.

In the event that closing in a jurisdiction is the subject of a Local Condition, closing in such jurisdiction shall be conditional on the relevant Local Condition having been fulfilled or waived in accordance with the Agreement.

Long Stop Date

Subject to the other provisions detailed in the Agreement, the parties shall procure the satisfaction of all the Conditions on or before the day that is twelve months following the date of the Agreement (the "**Long Stop Date**").

Manufacturing and Supply Agreement

Following the Closing, the Seller (or its affiliates) and the Company (or its affiliates) will enter into the Manufacturing and Supply Agreement. This agreement seeks to ensure that the Seller will continue to produce and supply the products listed under "Subject Matter" in the table summarizing the major terms of the Manufacturing and Supply Agreement below, which should have formed part of the Worldwide Business but are currently made at facilities that will not be transferred to the Company. These facilities are being excluded from the Transaction primarily due to foreign investment regulations.

The purpose of the Manufacturing and Supply Agreement is to maintain uninterrupted supply of these products to the Company and its subsidiaries after Closing. In principle, any products that are part of the Worldwide Business but made at sites not included in the Transaction will be sourced through the Manufacturing and Supply Agreement.

To the best of the Company's knowledge, information, and belief, the Seller and its affiliates are, and will remain, independent of the Company and its connected persons, and will not be connected with them. The transactions contemplated under the Manufacturing and Supply Agreement are revenue in nature and conducted in the ordinary and usual course of business of the Group. Therefore, they do not constitute any notifiable or connected transactions of the Company under the Listing Rules.

The major terms of the Manufacturing and Supply Agreement are as follows:

Subject Matter:	The supplier will manufacture and deliver surface solution products including pigments, cosmetics actives, industrial functionals, cosmetic fillers and other surface solution products to the Company for sale and use worldwide during the Term (as defined below). The supplier will exclusively supply these products to the Company and will not manufacture them for its own use or supply them to any third party. Both parties shall work together to transfer all know-how related to the manufacturing process to the Company's facilities, its affiliates, or third parties as outlined in the Manufacturing and Supply Agreement ("**Manufacturing Transfers**").
Term:	The Term starts on the day after the Closing Date ("**Effective Date**") and ends on the earlier of: 1. Completion of the Manufacturing Transfers (with up to six months of support for follow-up questions as requested by the Company); and 2. The fifth anniversary of the Effective Date (essentially with an extension period of up to a total of seven years).
Supply Price:	The Company will pay the contracted supply price specified in the Manufacturing and Supply Agreement after confirming the product. The supply price under the Manufacturing and Supply Agreement applies exclusively to the manufacture and delivery of the products. No consideration has to be paid for intellectual property rights or know-how. As the actual production costs are only known at the end of each year because they depend on various operational factors such as material prices, labour, and overheads that fluctuate over time, the final supply price may differ from the contracted supply price paid. Each year, the parties will adjust the supply price to account for differences between the contracted supply price specified in the Manufacturing and Supply Agreement and the actual standard costs incurred by the supplier. The supplier will notify the Company of any compensation due by the end of February of the following year and issue an invoice or credit note as needed. Any compensation amount will be capped at 15% of the total supply prices invoiced during that year.

Terms of delivery:	The supplier is required to deliver products within one week of the delivery date specified by the Company in its order. The supplier will invoice the supply price, as specified in the Manufacturing and Supply Agreement, upon delivery of the products.

Closing

Except as otherwise provided in the Agreement, Closing shall take place at midnight (i.e., 24:00 CET/CEST) on the last calendar day of the month following the month in which the Unconditional Date occurs, or at such other place, time and date as agreed to in writing by the Seller and Purchaser, provided that all the Conditions (other than those which have been waived) remain fulfilled at that date (the "**Closing Date**").

Termination

The Agreement may be terminated and the Transaction abandoned at any time prior to Closing:

(i) by mutual written consent of the Seller and the Company; or

(ii) by either the Seller or the Company, if Conditions (i) and (ii) above are not satisfied or waived on the Long Stop Date; provided, however, that if such non-satisfaction of a Condition was caused by the act or omission by a Party, such Party shall not be entitled to terminate by virtue of this method; or

(iii) by the Seller, if Closing does not occur on the Long Stop Date as a result of the Company having (a) failed to satisfy Condition (iii), or (b) failed to comply, or having failed to cause its Affiliates to comply, with any of the Company's obligations set out in certain provisions of the Agreement relating to Closing arrangements on the Closing Date; or

(iv) by the Company, if the Conditions (i) to (iii) have been satisfied but the Condition (iv) is not satisfied or waived on the Long Stop Date.

In the event that the Agreement is terminated by methods (ii) or (iii) above, the Company shall pay to the Seller a break fee of EUR65,000,000 (equivalent to approximately RMB507,000,000 or HK$546,000,000) within ten Business Days of notice of termination. The payment of the break fee shall not prevent or limit the Seller and/or the Designated Sellers from seeking any additional remedy from the Company and/or the Share Purchasers. The Board notes that the break fee of EUR65,000,000 represents approximately 10% of the Debt Free / Cash Free Price. Having considered the size of the Transaction, the Board is of the view that the amount of the break fee is fair and reasonable and in line with industry norms.

In the event that the break fee is payable and the Seller is able to demonstrate that it has suffered losses exceeding the agreed break fee of EUR65,000,000, the Company may be required to pay additional compensation to the Seller ("**Additional Compensation**"). This compensation is intended to cover actual damages incurred by the Seller, such as sunk costs and advisor fees related to the preparation of the carve-out of the Worldwide Business. To protect the Company's interests, the Agreement includes a reimbursement mechanism: If the Seller subsequently sells or transfers the Worldwide Business (or any part of it) to a third party within 18 months of termination and receives net cash proceeds equal to or greater than twice the amount of the Additional Compensation, the Seller is required to reimburse the Company for the Additional Compensation. This arrangement is designed to prevent a scenario where the Seller could benefit from the Additional Compensation and then use those funds to facilitate a more favourable sale to a third party. The Board has considered this mechanism and is of the view that it provides a reasonable and appropriate safeguard for the Company and its Shareholders. Accordingly, the Board considers this arrangement to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Upon termination of the Agreement, neither the Seller nor the Company (nor any of their Affiliates) shall have any claim, obligation or liability of any nature against any other Party (or any of its Affiliates) under the Agreement (except in respect of any rights and liabilities which have accrued in relation to the break fee or under any of the surviving provisions in the Agreement).

BASIS OF DETERMINATION OF THE CONSIDERATION

The consideration for the Transaction was determined after arm's length negotiations between the Parties, having taken into account of, among other things, (i) the enterprise value-to-EBIT multiple ("**EV/EBIT Multiple**") of comparable companies including the prevailing EV/EBIT Multiple of the Company; (ii) the historical financial performance of the Target Companies, whose adjusted EBIT in the fiscal year ended 31 December 2023 (the "**FY2023 Adjusted EBIT**") amounted to EUR60.0 million; (iii) the net asset value of the Target Companies of EUR532 million as of 31 December 2023 (the "**2023-Year End NAV**"); (iv) the business prospects of the Target Companies and potential synergy that Target Companies may contribute to the Enlarged Group as explained in the section headed "Reasons for and benefits of the Transaction" below; and (v) the price adjustment mechanisms set forth in the sub-section headed "Consideration" above.

EV/EBIT Multiple

Similar to the Company itself, the Target Companies are principally engaged in the provision of pearlescent pigments. The Target Companies procure raw materials for pearlescent pigment products, which are processed in their manufacturing site and distributed to an established international customer base. In addition, the Target Companies also provide cosmetic actives and other industrial functionals and raw materials.

The Directors have considered the valuation of the following comparable companies ("**Comparable Companies**"):

#	Comparable companies	Nature of business	Principal place of business	Listing venue and stock code	EV/EBIT
1	Element Solutions Inc	Production of specialty chemicals that enhance surfaces and improve industrial processes in diverse industrial sectors	United States	NYSE: ESI	28.0x
2	Umicore SA	Manufacturer of specialty chemicals, and catalysts for automotive industries	Belgium	EBR: UMI	8.6x
3	Fujian Kuncai Material Technology Co., Ltd.	Production and sale of pearlescent materials and mica	China	SHSE: 603826	N/A *(Note 1)*
4	Sudarshan Chemical Industrial Limited *(Note 2)*	Manufacturer of functional pigments, including organic, inorganic and pearlescent pigments as well as pigment pre-dispersion flakes and colour pastes	India	NSE: 506655	42.1x
5	Company				12.8x
	Average (excluding outliers)				16.5x
	Median (excluding outliers)				12.8x

Note 1: The EBIT of Fujian Kuncai Material Technology Co. Ltd. was negative in FY2023. Therefore, the EV/EBIT Multiple of this company is not meaningful and not included in calculation of Average or Median EV/EBIT.

Note 2: The EV/EBIT Multiple of Sudarshan Chemical Industrial Limited is exceptionally high which is more than one standard deviation away from the average. Therefore, its EV/EBIT Multiple is considered as an outlier and not included in the calculation of Average or Median EV/EBIT.

The selection of the comparable companies was based on the comparability of the overall industry sector. The comparable public companies were selected with reference to the following selection criteria:

— The companies are primarily engaged in the specialty chemical manufacturing industry with a global client base that is comparable to the Target Companies

— The financial information of the companies is in public domain

A list of five comparable companies that engaged in similar business as the Target Companies has been considered, in which these companies are considered to be representative. The Directors confirm that the list of five comparable companies is the most relevant and exhaustive having considered their business activities, geographical locations, operation scale, profitability and operating history. Although no two companies will be exactly the same there are certain business attributes, such as required capital investment and overall perceived risks and uncertainties, that guide the market in reaching the expected returns for companies with certain similar attributes.

The EV/EBIT Multiples of the Comparable Companies provided the Board with an informed range of EV/EBIT Multiples within which the Board may negotiate the consideration with the Sellers. The Directors also considered the average EV/EBIT Multiples of 16.5 times. Compared to the average, the median is a commonly used statistical measure as it provides a good representation of the central tendency of a dataset. It is also useful because it is sensitive to changes in the dataset and is affected by every value in the dataset.

Whereas the EV/EBIT Multiple of 11.08 times was eventually adopted by the Board in negotiations between the Parties after taking into considerations of the following:

(a) The EV/EBIT Multiples of the Comparable Companies were between 8.6 times to 28.0 times with a median of 12.8 times; The EV/EBIT Multiple of 11.08 times falls within the range and is below the median EV/EBIT Multiples of the Comparable Companies of 12.8 times; and

(b) Noting that the Target Companies are not listed on any stock exchange, the EV/EBIT Multiple of 11.08 times also reflected a discount for the lack of marketability ("**DLOM**") of approximately 13% to the median EV/EBIT Multiple of Comparable Companies of 12.8 times and 33% to the average EV/EBIT Multiple of Comparable Companies of 16.5 times. According to the "Control Premium & Discount for Lack of Marketability Study" published by Moore in February 2024 (web link to the publication: https://www.moore.hk/publications/control-premium-discount-for-lack-of-marketability/2024-issue-1), the DLOM adopted in 34 valuation reports published on the Stock Exchange in 2023 ranged from 9.0% to 42.9%.

Therefore, the Board is of the view that using an EV/EBIT Multiple of 11.08 times is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

FY2023 Adjusted EBIT

As further disclosed in Appendix IV to this circular, the adjusted EBIT is defined as profit or loss before finance income, interest expenses, other finance costs and tax and before corporate costs recharged by the parent group ("**Merck Group**") to the Target Companies. As disclosed in Appendix II to this circular, Merck Group incurs a number of corporate costs centrally. These costs comprise costs associated with remuneration of the board of the Merck Group including top executives, provision of treasury services, use of shared assets etc.

The Board acknowledges that these corporate costs will no longer be recharged to the Target Companies after their separation from the Merck Group as a result of the Transaction. Accordingly, the Board considers the exclusion of these non-recurring corporate costs in calculating adjusted EBIT to be appropriate, as it provides a more accurate measure of the Target Companies' core operating performance. On this basis, the Board has referred to the FY2023 Adjusted EBIT in determining the consideration for the Transaction.

As the Transaction will be conditional upon a reorganization before Closing, the adjusted EBIT of the Target Companies was calculated using the financial data of the Seller's business segments/units, adjusted to reflect how those Target Companies are actually performing. The Directors are of the view that measurements in enterprise value and EBIT are useful to compare multiple with different capital or asset structures because EV (represented by the Debt Free / Cash Free Price in a transaction) excludes the distorting effects of individual companies' capital/asset levels. For such reasons, an EV/EBIT Multiple makes reference to a company's ability to generate income and cash flow (which is relevant to the Target Companies as they recorded strong positive EBIT in recent years).

Taking into account the EV/EBIT Multiple of 11.08 times and the FY2023 Adjusted EBIT of EUR60 million, the Board has determined the Debt Free / Cash Free Price based on the following formula:

Debt Free / Cash Free Price = EV / EBIT Multiple x FY2023 Adjusted EBIT

2023-Year End NAV

The Directors also submit that following completion of the Transaction, the entire amount of the assets and liabilities of Target Companies would be consolidated into the statement of financial position of the Enlarged Group. The total consideration represents a premium of 25.0% to 2023-Year End NAV.

However, the Directors believe that 2023-Year End NAV does not fully reflect the true value of the Target Companies. This is because the core competitive strengths of the Target Companies lie in their customer relationships, research and development capability, and industry and process know-how. These are intangible assets that do not appear in the books and are difficult to value on their own. As a result, the price-to-book ratio, which compares the consideration to the 2023-Year End NAV, is not considered the most relevant measure in this case. The Directors believe that the EV/EBIT multiple is a more appropriate and meaningful valuation metric, as it better reflects the Target Companies' earnings and operating performance.

Furthermore, the Directors also consider EV/EBIT Multiple to be more representative than other commonly adopted multiples such as price-to-sales or price-to-earnings ratios as (i) price-to-sales ratio does not account for the profitability of the business; and (ii) price-to-earnings ratio includes effects of tax and capital structure on earnings which may differ in different countries.

Other factors

Moreover, the Board has also taken into consideration various unquantifiable benefit and gains detailed in the section headed "Reasons and benefits of the Transaction" below, including but not limited to the potentially realisable strategic synergistic effect and growth prospect of the businesses of the Enlarged Group when the Debt Free / Cash Free Price was determined.

With the global pearlescent pigment industry growing rapidly in recent years, the Directors believe that the Target Companies are a strong match for the Group's existing business. Their leading market position, international sales network, and well-known brand names make them a strategic fit. By combining strengths through this transaction, the Target Companies could see increased revenue and stronger cash flow in the future, thanks to the benefits of working more closely with the Group.

Due to the required Reorganisation prior to Closing, the Directors consider the closing mechanism as set out in the Pre-Closing Adjustment and Post-Closing Adjustment to be necessary to reconcile the net amount paid by the Company to the Seller at Closing to reflect the actual consideration.

Having considered the factors set out above, the Directors are of the view that the consideration of the Transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE SELLERS AND THE TARGET COMPANIES

Information on the Target Companies

The Target Companies at Closing shall comprise the following companies as well as companies to be incorporated in the course of the Reorganisation:

(i) Surface Solutions Materials (Shanghai) Co., Ltd., a limited liability company incorporated in the PRC;

(ii) SUSONITY Services GmbH, a limited liability company incorporated in Germany;

(iii) SUSONITY Commercial GmbH, a limited liability company incorporated in Germany which, at the time of Closing, will be a wholly-owned subsidiary of SUSONITY Services GmbH;

(iv) SUSONITY Production GmbH, a limited liability company incorporated in Germany which, at the time of Closing, will be a wholly-owned subsidiary of SUSONITY Services GmbH;

(v) Surface Solutions, Inc., a limited liability company incorporated in the Republic of Korea which, at the time of Closing, will be a wholly-owned subsidiary of SUSONITY Services GmbH;

(vi) Susonity, S. de R.L. de C.V., a limited liability company incorporated in Mexico which, at the time of Closing, will be a wholly-owned subsidiary of SUSONITY Services GmbH;

(vii) SURFACE MATERIALS LTD, a limited liability company incorporated in the United Kingdom which, at the time of Closing, will be a wholly-owned subsidiary of SUSONITY Services GmbH;

(viii) Surface Materials (Thailand) Ltd., a limited liability company incorporated in Thailand which, at the time of Closing, will be a wholly-owned subsidiary of SUSONITY Services GmbH;

(ix) SUSONITY Sp. z.o.o., a limited liability company incorporated in Poland which, at the time of Closing, will be a wholly-owned subsidiary of SUSONITY Services GmbH;

(x) Surface Solutions Sdn. Bhd., a limited liability company incorporated in Malaysia which, at the time of Closing, will be a wholly-owned subsidiary of SUSONITY Services GmbH;

(xi) SUSONITY Holdings G.K., a limited liability company incorporated in Japan;

(xii) SUSONITY Japan G.K. , a limited liability company incorporated in Japan and a subsidiary of SUSONITY Holdings G.K.;

(xiii) SURFACE SOLUTIONS BRASIL LTDA, a limited liability company incorporated in Brazil which, at the time of Closing, will be approximately 99% held by Millipore Int. Holdings S.a.r.l. and approximately 1% held by Merck Chemicals B.V.;

(xiv) SUSONITY LLC, a limited liability company incorporated in the United States;

(xv) Surface Solutions S.A.S., a simplified joint-stock company incorporated in France; and

(xvi) SUSONITY S.r.l., a limited liability company incorporated in Italy.

Each of the Target Companies is an indirect subsidiary of the Seller. The Target Companies are principally engaged in surface solutions businesses, which is part of the Seller's electronics business sector. The Target Companies are surface solutions providers and leaders in pearlescent pigments serving mainly customers active in the automotive, cosmetics and industrial applications. Apart from pearlescent pigments, the Target Companies product portfolio also comprise cosmetic actives (such as insect repellent and tanning products) and other industrial functionals and raw materials (such as high-performance additives for protective and optical coatings or functional pigments for anti-counterfeiting applications). The business of the Target Companies is run as a customer-centric organization and structured along regions rather than business or product segments. That means there is one commercial sales force per region (namely, Asia, EMEA and Americas), serving all customers with all products from the Target Companies' portfolio. This is a synergistic approach as many customers do not only source pearlescent pigments but also non-pearlescent pigments products from the Target Companies (e.g. a cosmetics customer buying pearlescent pigments together with tanning products or a coatings manufacturer sourcing pearlescent pigments together with high-performance additives).

The Group focuses on the research and development, production and sales of pearlescent materials and synthetic mica. In particular, the Group's pearlescent pigment products are used as colourants in various applications and industries, including industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings. Given the Target Companies' revenue and profit exposure to the pearlescent pigments industry, it is considered that the Target Companies are active broadly in the same industry as the Company's existing principal businesses. It is expected that upon Closing, the Target Companies will be consolidated into the accounts of the Group under the existing business segment of the Group as set out in the financial statements of the Group, which is the manufacturing and sales of pearlescent pigments products and functional mica filler and related products. As such, the Board is of the view that there will be no fundamental change in the Company's principal business upon Closing.

The Directors and the senior management team of the Company possess extensive experience and expertise in the business of the Target Companies. As set out on pages 129 to 135 of the 2024 annual report of the Company, the Directors and senior management of the Company are experienced in the industry. Most of the senior management of the Company have more than ten years of experience in the management or operations of pearlescent pigment and synthetic mica products manufacturing. In particular, the Chairman, Mr. Su Ertian and the executive Director, Mr. Jin Zengqin, have been the chairman and the director of the principal subsidiary of the Company, Guangxi Chesir Pearl Material Co., Ltd., since 2011, respectively. Each of Mr. Zhou Fangchao, Mr. Bai Zhihuan and Ms. Zeng Zhu, being the executive Directors, joined the Group since 2014. Mr. Hu Yongxiang, being the non-executive Director, is also experienced in the successful listing of companies in the new materials industry. Considering that the business of the Target Companies is in an area which the Company is already familiar with, the Directors and senior management of the Company will be able to leverage their existing expertise in managing the acquired business of the Target Companies.

Information on the Seller Group

The Seller is a partnership limited by shares incorporated in Germany, the shares of which are listed on the Frankfurt Stock Exchange with the symbol "MRK". The Seller (together with its subsidiaries) is a science and technology company with three business sectors, namely life science, healthcare and electronics.

The Share Sellers at Closing shall comprise the following companies:

(i) Merck Electronics KGaA, a partnership limited by shares incorporated in Germany;

(ii) Merck Chemicals B.V., a private limited company incorporated in the Netherlands;

(iii) Merck Life Science KGaA, a partnership limited by shares incorporated in Germany;

(iv) Merck Holding (China) Co., Ltd., a limited liability company incorporated in the PRC;

(v) Millipore Int. Holdings S.a.r.l., a private limited liability company incorporated in Luxembourg;

(vi) EMD Performance Materials Corp., a corporation incorporated in the United States; and

(vii) Merck S.A., a public limited company incorporated in France.

Each of the Share Sellers is a wholly-owned subsidiary of the Seller. The principal business activities of the Share Sellers are the manufacture and sale of products for the life science, electronics and chemical industry, as well as the development, acquisition and utilisation of processes and equipment and all related business activities.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, each of the Seller, the Designated Sellers and their respective ultimate beneficial owner(s) is an Independent Third Party.

FINANCIAL INFORMATION ON THE TARGET COMPANIES

The table below sets forth a summary of selected unaudited financial information of the Target Companies for the two years ended 31 December 2024 and as of 31 December 2024 and 2023:

	Year ended 31 December	
	2024	**2023**
	(unaudited)	*(unaudited)*
	Euro (million)	*Euro (million)*
Revenue	402	405
Profit (loss) before tax	-3	18
Profit (loss) after tax	-1	18
Net asset value (as of 31 December)	476	532

Upon Closing, the Company will indirectly hold all of the issued shares of the Target Companies and the Target Companies will then become subsidiaries of the Company and will be consolidated into the accounts of the Group.

INFORMATION ON THE GROUP AND THE SHARE PURCHASERS

The Company is an investment holding company. The Group is principally engaged in the business of production and sales of pearlescent pigment products and functional mica and related products in the PRC and the Republic of Korea.

The Share Purchasers are wholly-owned subsidiaries of the Company and will be holding shares in the Target Companies upon Completion.

FINANCIAL EFFECTS OF THE ACQUISITION

The table below sets forth the financial effects of the Acquisition identified in the unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information of the Enlarged Group**") as set forth in Appendix III to this circular, assuming the Transaction had been completed on 31 December 2024, as compared to the financial position of the Group as of 31 December 2024:

	The Group	**Target Group**	**Total pro forma adjustment**	**Upon the Closing (pro forma Enlarged Group)**	**Change %**
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	
Net assets	4,353,125	3,627,120	(3,746,349)	4,233,896	(2.7%)
Total assets	7,054,508	4,861,560	(7,888)	11,908,180	68.8%
Total liabilities	2,701,383	1,234,440	3,738,461	7,674,284	184.1%

Assets and liabilities

Based on the Unaudited Pro Forma Financial Information, the unaudited pro forma consolidated total assets of the Enlarged Group as of 31 December 2024 would increase by RMB4,853.7 million to RMB11,908.2 million and the unaudited pro forma consolidated total liabilities of the Enlarged Group as of 31 December 2024 would increase by RMB4,972.9 million to RMB7,674.3 million. The unaudited pro forma consolidated net assets of the Enlarged Group as of 31 December 2024 would decrease by RMB119.2 million to RMB4,233.9 million. As disclosed in the paragraphs under "Working capital sufficiency" in Appendix I to this circular, the Directors are of the opinion that, after taking into account the Closing and the financial resources available to the Enlarged Group, the Enlarged Group has sufficient working capital for its requirement for at least the next 12 months from the date of this circular.

The net assets, the total assets and the total liabilities of the Enlarged Group which are referred to in this subsection were extracted from the Unaudited Pro Forma Financial Information, which was based on, among other things, the assumption that the completion of the Acquisition had occurred on 31 December 2024 and the Group would be able to control 100% equity interest in Target Group.

Earnings

Upon the Closing, Target Group will become a wholly owned subsidiary of the Company.

According to the annual report of the Company for the year ended 31 December 2024, the audited consolidated profit and profit attributable to owners of the Company for the year ended 31 December 2024 were amounted to RMB320.3 million and RMB242.2 million, respectively.

The Transaction would lead to a decrease in the Group's earnings as if the Acquisition was completed on 1 January 2024, primarily attributable to the additional depreciation of property, plant and equipment of Target Companies as a consequence of recognition of fair value adjustment of the property, plant and equipment as well as the one-off legal and professional fees related to the Acquisition.

In light of the potential future prospects offered by the Acquisition as stated in the section headed "Reasons for and benefits of the Acquisition" in this letter from the Board, the Acquisition is expected to contribute towards broadening the revenue and earnings base for the Enlarged Group. It is therefore expected that the Acquisition would have a positive impact on the Enlarged Group's earnings in the future. Further details of the financial effect of the Acquisition together with the bases in preparing the unaudited pro forma financial information of the Enlarged Group are set out, for illustration purpose only, in Appendix III to this circular.

The above analysis is for illustrative purpose only and does not purport to represent how the financial performance and position of the Group would actually be after Completion. Please refer to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular for more details on the financial effect of the Transaction.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Board is of the view that the Transaction is in the interests of the Company and its shareholders as a whole for the following reasons:

- **The Group will further expand the geographical coverage and sales channels of its principal business**

The production bases and service markets of the Group's pearlescent pigments and functional specialty products are mainly located in the PRC and the Republic of Korea. The Group has been paying close attention to the international market and suitable business co-operation opportunities, focusing on pearlescent materials and accelerating its international strategic layout. The Target Companies have a network of sales channels covering major markets around the world. Through the Transaction, considering the Target Companies' strong brand, and its large and highly satisfied customer base across many geographies and products, the Group will be able to rely on the Target Companies' strong global e-commerce channel that has been rolled out to most major markets across the continents to effectively reach out to international customers and achieve incremental sales, which will be another important step towards the realization of the Group's global layout.

- **The Group will further enrich its product portfolio and enhance the competitiveness of its principal business**

With the sustained and rapid development of the global pearlescent pigment industry, on the basis of the main traditional product applications such as coatings, plastics, inks, vehicles, cosmetics, etc., the application of pearlescent pigment has been further expanded to the fields of vehicle paints, industrial machinery and equipment coating, children's toys, home decoration, food packaging, etc. The continuous development of the substrate-related research technologies also sustain the rapid growth of the pearlescent pigment industry. Currently, the Group is a leader in various pigment businesses, including for use in industrial coatings, plastics and printing inks. The Board believes that through conducting the Transaction, the competitiveness of the Group's principal business will be enhanced and its product offering will be broader. In addition, the Group will be able to enhance product diversification and services and further increase customer satisfaction. By incorporating the Target Companies' cosmetic offering into the Group's pigment business product portfolio, the Group may consider setting up a cosmetic division to provide packaged cosmetic solutions to globally renowned customers in the cosmetic field.

- **The Group will strengthen its supply chain and achieve synergies that will benefit customers**

Natural mica, one of the core raw materials used in the production of pigments, is highly dependent on the supply of natural mica raw materials in India, which are gradually being depleted. The Group possesses the technology of synthetic mica and a synthetic mica factory, which can replace natural mica with high quality synthetic mica. In addition, compared with Western countries, Chinese pearlescent pigment manufacturers have relative advantages in terms of availability and price of resources such as land, infrastructure, public works and energy and labour. Currently, a complete pearlescent pigment industry chain has formed in the PRC from pearlescent raw materials, intermediates, production and sales of specialized equipment and downstream consumer markets. Through conducting the Transaction, the Board believes that the Group and the Target Companies can realize complementary advantages, further strengthen their supply chain, reduce production costs and achieve synergy. Meanwhile, by integrating the operational resources and production processes of the Group and the Target Companies, the overall operational efficiency of the Group can be enhanced after the Transaction.

- **The Group will further enhance its technological research and development and contribute to the enhancement of environmental, social and governance standard**

The Transaction will promote the technological innovation of the Group and the Target Companies in fields such as raw material supply, product safety and environmental friendliness.

The Directors confirm that the Agreement was entered into on normal commercial terms following arm's length negotiations between the Parties and consider that the Transaction, the terms of the Agreement (including the terms of consideration) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Transaction exceeds 100%, the Transaction constitutes a very substantial acquisition (as such term is defined under the Listing Rules) for the Company under Rule 14.06 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

EGM

The notice of the EGM is set forth on pages EGM-1 to EGM-2 of this circular.

The EGM will be convened at 6th Floor, Guangxi Chesir Pearl Material Co., Ltd., Pearlescent Industrial Park, No. 380, Feilu Road, Luzhai Town, Luzhai County, Liuzhou City, Guangxi, China at 10 a.m. on Monday, 21 July 2025 for the Shareholders to consider and if thought fit, to pass the resolutions to approve the Transaction, the Agreement and the transactions contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has any material interest in the Transaction, the Agreement and the transactions contemplated thereunder. Hence, no Shareholder is required to abstain from voting at the EGM in respect of the resolutions approving the Transaction, the Agreement and the transactions contemplated thereunder.

Mr. Su Ertian and companies controlled by him, together with certain other Shareholders, who, in aggregate, have an interest in approximately 50.6% of the issued Shares of the Company have irrevocably undertaken to, among other things, vote or appoint a proxy to vote all such Shares in favour of the resolutions to approve the Transaction at the EGM.

PROXY ARRANGEMENT

A form of proxy for use at the EGM is accompanied with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chesir.net). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the appointed time for holding the EGM, i.e. before 10 a.m. on Saturday, 19 July 2025, or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 16 July 2025 to Monday, 21 July 2025 (both days inclusive), during which period no transfer of Shares will be registered. The record date for entitlement to attend and vote at the EGM is Monday, 21 July 2025. In order to qualify to attend and vote at the EGM, all Share transfer documents accompanied by relevant Share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on Tuesday, 15 July 2025.

VOTING BY WAY OF POLL

According to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, poll voting for all proposed resolutions of the Company will be proceeded with at the EGM.

The poll results will be published on the Stock Exchange's website and the Company's website after the conclusion of the EGM.

Holders of treasury Shares (if any) shall abstain from voting on matters that require shareholders' approval at the Company's general meetings.

RECOMMENDATION

The Directors confirm that the Agreement is entered into on normal commercial terms following arm's length negotiations between the Parties and consider that the Transaction, the terms of the Agreement (including the terms of consideration) and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors would recommend the Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Transaction, the Agreement and the transactions contemplated thereunder.

FURTHER INFORMATION

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

Shareholders and potential investors of the Company should note that Closing is subject to the satisfaction and/or, where applicable, waiver of the Conditions set forth in the Agreement and may or may not proceed. Hence, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

This circular may contain certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. When used in this circular, the words "will", "should", "continue", "future", "expect", "anticipate", "believe" and similar expressions are intended to identify forward-looking statements. Forward-looking statements contained in this circular do not constitute and should not be viewed as commitments made by the Group. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Group to be materially different from those implied by such forward-looking statements. In addition, the Group does not intend to update such forward-looking statements. Investors are cautioned not to unduly rely on such forward-looking statements.

Yours faithfully,
For and on behalf of the Board
Global New Material International Holdings Limited
SU Ertian
Chairman and Chief Executive Officer

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2022, 2023 and 2024 is disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chesir.net). Web links to the annual reports of the Company are set forth below:

(a) Annual report of the Company for the year ended 31 December 2022, from pages 125 to 194:
https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0427/2023042701738.pdf

(b) Annual report of the Company for the year ended 31 December 2023, from pages 133 to 232:
https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0429/2024042901147.pdf

(c) Annual report of the Company for the year ended 31 December 2024, from pages 144 to 246:
https://www1.hkexnews.hk/listedco/listconews/sehk/2025/0429/2025042903169.pdf

2. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

At the close of business on 30 April 2025, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this circular, the Enlarged Group had the following indebtedness:

Bank loans and other borrowings

As at 30 April 2025, the Enlarged Group had bank and other borrowings of approximately RMB2,375.6 million, of which:

The Group's secured bank loans of approximately RMB977.3 million are secured by the Group's restricted deposits, property, plant and equipment and also secured by land and buildings owned by a substantial shareholder (who also is an executive director of the Company) of the Company and the close family members of this substantial shareholder of the Company, together with personal guarantees of this substantial shareholder, an executive director of the Company and the close family members of this substantial shareholder of the Company.

The Group's other borrowings of approximately RMB943.7 million are comprised of the following: RMB872.8 million secured by the Group's property, plant and equipment, restricted deposits and share mortgage of the subsidiaries of the Company and guaranteed by subsidiaries of the Company; RMB70.9 million were secured by the Group's restricted deposits but not guaranteed.

The Group's bank loans and other borrowings of RMB454.6 million were neither secured nor guaranteed.

Convertible bonds

As at 30 April 2025, the Enlarged Group had outstanding unsecured and guaranteed convertible bonds with an aggregate principal amount of approximately RMB348.8 million, with also unsecured and unguaranteed convertible bonds with an aggregate principal amount of approximately RMB376.5 million.

Lease obligations

	RMB'000
The Group	7,700
The Target Companies	101,601
The Enlarged Group	109,301

As at 30 April 2025, the Enlarged Group, as a lessee, had outstanding unpaid contractual lease payments for the remainder of the relevant lease terms amounting to RMB109.3 million in aggregate, all of which are unsecured and unguaranteed.

Contingent Liabilities

As at 30 April 2025, there was no material contingent liability of the Enlarged Group.

Amounts due to related parties

As at 30 April 2025, The Target Companies had RMB119.9 million of amounts due to related parties which are of non-trade nature, unsecured and repayable on demand.

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, none of the members of the Enlarged Group had (a) any debt securities issued and outstanding, and authorised or otherwise created but unissued; (b) any term loans; (c) any borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptances credits or hire purchase commitments; (d) any debentures, mortgages or charges; or (e) any guarantee or other material contingent liabilities outstanding at the close of business on 30 April 2025, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular.

3. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2024, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL SUFFICIENCY

After due and careful consideration, the Directors are of the opinion that, taking into account the effect of the Transaction, the financial resources available to the Enlarged Group including cash flows to be generated from the operating activities and the available credit facilities, the Enlarged Group will have sufficient working capital for its requirements for at least 12 months from the date of this circular, in the absence of unforeseen circumstances.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

5. TREND OF BUSINESS OF THE GROUP AND FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

For the year ended 31 December 2024 (the "**FY2024**"), the Group's revenue amounted to approximately RMB1,648.8 million, representing a year-on-year increase of approximately 55.0%, and EBITDA amounted to approximately RMB612.9 million, representing an increase of approximately 65.9%. Net profit also amounted to approximately RMB320.3 million, representing a year-on-year increase of approximately 50.2%.

Looking into the future, the Group will continue its "stable" momentum. We have always adhered to being market-oriented and customer-focused, and have made remarkable market expansion achievements in the fields of high-end pearlescent materials, synthetic mica and new energy materials. Our excellent product quality and superior services have enabled the Company to achieve robust performance growth in both domestic and international markets.

The Group will also fully implement the strategy of "Material + Innovation + Full-scenario", and continue to make efforts in the three core areas of "green manufacturing, advanced materials and intelligent applications" to drive the Group to new heights. The Group will increase its investment in research and development, establish a global collaborative research and development mechanism, accelerate the commercialization of technological achievements in the fields of synthetic mica, pearlescent materials, new energy materials, etc., and create a full-scenario application matrix.

Subject to completion of the Transaction, the Group plans to undertake in-depth integration of the Worldwide Business into the Group. Surrounding the Worldwide Business's brand advantages, technical advantages and market resources, the Company will promote the in-depth integration of its surface performance materials with the existing pearlescent materials and functional materials, and enhance the competitiveness of its products through the collaboration of its global team and the integration of its resources, so as to consolidate its dominant position in the field of global surface performance materials.

We will focus our efforts on the following six areas:

(i) integration of global sales channels;

(ii) coverage of full range product portfolios;

(iii) optimization of supply chain costs;

(iv) enhancement of technology integration and innovation capabilities;

(v) building of a global talent pool; and

(vi) promotion of brand influence and market position.

We have set clear short-term goals to rapidly increase the Company's global sales scale and gross profit margin. Set out below are some of our key initiatives in the six areas:

Integration of global sales channel

We will strive to open up and optimize global sales channels to ensure that our products can reach various markets and customer groups more efficiently.

Coverage of full range product portfolios

We will continue to expand and improve our full range of high-, mid- and low-end product portfolios to meet the needs of different markets and consumers, thereby enhancing our competitiveness in the market.

Optimization of supply chain costs

We will optimize our supply chain costs through refined management to improve operational efficiency and reduce costs.

We are focused on the future and have developed a medium to long-term strategic plan to ensure our continued leadership and growth in future markets. Here are some of our key initiatives:

Enhancement of technology integration and innovation capabilities

We will continue to increase our investment in research and development to promote product upgrading and application expansion in the fields of cosmetic active ingredients and industrial functional products through enhancement of technology integration and innovation capabilities. On the basis of the steady growth of our existing business, we will explore and cultivate new growth areas to create a secondary growth curve for the Group. We will further tilt the focus of our downstream market expansion towards the consumer sector to meet growing end-consumer demand and capture new market opportunities.

Building of a global talent pool

We will build a global talent pool to provide strong intellectual support for the Group's long-term growth and innovation.

Promotion of brand influence and market position

Through a series of brand building and marketing activities, we will enhance our brand influence, achieve brand premium, and win a greater voice in the industry.

6. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

Save for the Transaction contemplated under the Agreement (details of which are disclosed in this circular), since 31 December 2024 (being the date of which the latest published audited consolidated accounts of the Company were made up to), no member of the Group has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report or next published accounts of the Company.

The aggregate of the remuneration payable to and benefits in kind received by the Directors will not be varied in consequence of the Transaction.

The following is the text of a report on the Target Companies received from the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SURFACE SOLUTIONS BUSINESS OF MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN AND ITS SUBSIDIARIES TO THE DIRECTORS OF GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED

Introduction

We report on the historical financial information of surface solutions business of Merck Kommanditgesellschaft auf Aktien (the "Merck KGaA") and its subsidiaries (together, the "Merck Group") (the "Surface Solutions Business") set out on pages II-4 to II-59, which comprises the combined statements of financial position of the Surface Solutions Business as at 31 December 2022, 2023 and 2024 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Surface Solutions Business for each of the 3 years ended 31 December 2022, 2023 and 2024 (the "Relevant Periods") and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-59 forms an integral part of this report, which has been prepared for inclusion in the circular of Global New Material International Holdings Limited (the "Company") dated 25 June 2025 (the "Circular") in connection with the purchase of the Surface Solutions Business.

Directors' responsibility for the Historical Financial Information

The directors of the Merck KGaA are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Notes 2 and 3 to the Historical Financial Information, and for such internal control as the directors of the Merck KGaA determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Surface Solutions Business is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Notes 2 and 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Merck KGaA, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Surface Solutions Business' financial position as at 31 December 2022, 2023 and 2024 and of the Surface Solutions Business' financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Notes 2 and 3 to the Historical Financial Information.

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

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page II-4 as were considered necessary.

Dividends

We refer to Note 12 to the Historical Financial Information which states that no dividend was declared or paid by the Surface Solutions Business in respect of the Relevant Periods.

No historical financial statements for the Surface Solutions Business

No financial statements have been prepared for the Surface Solutions Business for any period of three years ended on a date three months before the issue of the Circular.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 June 2025

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The Historical Financial Information in this report was prepared based on combined financial statements of the Surface Solutions Business for the Relevant Periods. The combined financial statements have been prepared in accordance with IFRS Accounting Standards as adopted by the European Union and were audited by Deloitte GmbH, certified public accountants registered in Germany in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Euro ("€") and all values are rounded to the nearest million (€'million) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December 2022	2023	2024
		€'million	€'million	€'million
Revenue	7	433	405	402
Cost of sales		(248)	(247)	(271)
Gross profit		185	158	131
Other operating income	8	3	2	1
Marketing and selling expenses		(102)	(90)	(89)
Administrative expenses		(25)	(20)	(20)
Research and development expenses		(19)	(16)	(15)
Other operating expenses		(9)	(14)	(9)
Finance costs	9	(1)	(2)	(2)
Profit (loss) before tax	10	32	18	(3)
Income tax (expense) credit	11	(4)	—	2
Profit (loss) for the year		28	18	(1)
Other comprehensive loss				
Item that will not be reclassified to profit or loss				
Remeasurement of defined benefit obligations		(51)	(2)	(3)
Item that may be reclassified to profit or loss				
Exchange differences arising on translation of foreign operations		(3)	(12)	2
Other comprehensive expense for the year		(54)	(14)	(1)
Total comprehensive (expense) income for the year		(26)	4	(2)

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
	NOTES	**2022**	**2023**	**2024**
		€'million	*€'million*	*€'million*
Non-current assets				
Property, plant and equipment	14	98	104	106
Right-of-use assets	15	16	10	14
Goodwill	17	162	162	162
Other intangible assets	16	3	2	1
Prepayments	19	1	—	—
Deferred tax assets	28	16	21	21
		296	299	304
Current assets				
Inventories	18	259	281	253
Trade and other receivables, and prepayments	19	106	81	81
Amounts due from related parties	20	23	15	—
		388	377	334
Current liabilities				
Trade and other payables	21	77	48	48
Provisions	27	2	3	2
Refund liabilities	22	1	1	1
Contract liabilities	23	3	4	3
Loans from related parties	24	16	14	9
Amounts due to related parties	25	3	7	26
Tax payable		7	2	3
Lease liabilities	26	5	5	4
		114	84	96
Net current assets		274	293	238
Total assets less current liabilities		570	592	542

		As at 31 December		
	NOTES	**2022**	**2023**	**2024**
		€'million	*€'million*	*€'million*
Non-current liabilities				
Other payables	21	47	51	54
Provisions	27	2	2	1
Lease liabilities	26	12	7	11
		61	60	66
Net assets		509	532	476
Equity				
Invested equity attributable to Merck Group		496	533	478
Reserves		13	(1)	(2)
Total equity		509	532	476

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Surface Solutions Business			
	Invested equity attributable to Merck Group	**Exchange differences**	**Remeasurements of post-employment benefits**	**Total equity**
	€'million	*€'million*	*€'million*	*€'million*
At 1 January 2022	340	—	67	407
Equity transactions with owners (note)	128	—	—	128
Profit for the year	28	—	—	28
Other comprehensive expense	—	(3)	(51)	(54)
At 31 December 2022	496	(3)	16	509
Equity transactions with owners (note)	19	—	—	19
Profit for the year	18	—	—	18
Other comprehensive expense	—	(12)	(2)	(14)
At 31 December 2023	533	(15)	14	532
Equity transactions with owners (note)	(54)	—	—	(54)
Loss for the year	(1)	—	—	(1)
Other comprehensive expense	—	2	(3)	(1)
At 31 December 2024	478	(13)	11	476

Note: Equity transactions with owners represent transactions with remaining Merck Group that are treated as contributions or withdrawals, particularly corporate cost allocation, taxes and charges for usage of shared assets etc.

COMBINED STATEMENTS OF CASH FLOWS

	Years ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
OPERATING ACTIVITIES			
Profit (loss) before tax	32	18	(3)
Finance costs	1	2	2
Depreciation of property, plant and equipment	13	17	13
Depreciation of right-of-use assets	6	5	6
Amortisation of other intangible assets	1	1	1
Write-off of inventories	2	20	2
Share-based payment expenses	1	—	1
Operating cashflows before movements in working capital	**56**	**63**	**22**
(Increase) decrease in inventories	(27)	(47)	27
Decrease in trade and other receivables, and prepayments	8	17	1
(Decrease) increase in trade and other payables	(14)	(34)	3
(Decrease) increase in provisions	(53)	5	(5)
Increase (decrease) in contract liabilities	1	1	(2)
Increase (decrease) in amounts due to related parties	3	(1)	—
Cash (used in) from operations	(26)	4	46
Income tax refund (paid)	14	(5)	2
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(12)**	**(1)**	**48**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(23)	(28)	(27)
Purchase of other intangible assets	—	—	(1)
Proceeds from disposal of property, plant and equipment	2	1	—
NET CASH USED IN INVESTING ACTIVITIES	**(21)**	**(27)**	**(28)**

	Years ended 31 December		
	2022	2023	2024
	€'million	*€'million*	*€'million*
FINANCING ACTIVITIES			
Repayment of lease liabilities	(4)	(6)	(6)
Proceeds from (repayment to) loans from related parties	16	(1)	(4)
(Repayment to) proceeds from related parties	(10)	8	33
Contributions from (withdrawals to) Merck Group	31	27	(43)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**33**	**28**	**(20)**
NET CHANGES IN CASH AND CASH EQUIVALENTS	—	—	—
CASH AND CASH EQUIVALENTS AT BEGINNING AND END OF THE YEAR	—	—	—

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

Merck KGaA has signed an agreement to sell the Surface Solutions Business to Global New Material International Holdings Ltd., Cayman Islands (the "Transaction").

The principal activity of the Surface Solutions Business is the production and sale of pigment products.

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

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period and in accordance with the following accounting policies which conform with IFRS Accounting Standards. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

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

During the Relevant Periods, the Surface Solutions Business comprising the companies (collectively the "Perimeter Entities") as set out in note 32, underwent a group reorganisation as described below ("Group Reorganisation").

For the purposes of the Transaction, Merck KGaA undertook local reorganisation steps, involving establishment of new legal entities and transferring the Surface Solutions Business to new legal entities by way of asset deal.

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and combined statements of cash flows for the years ended 31 December 2022, 2023 and 2024 have been prepared to include the financial performance, changes in equity and cashflows of the Perimeter Entities, which form the Surface Solutions Business, for each of the years ended 31 December 2022, 2023 and 2024. The combined statements of financial position as at 31 December 2022, 2023 and 2024 have been prepared to present the carrying amounts of the combined assets and the combined liabilities of the Perimeter Entities, which form the Surface Solutions Business, as at 31 December 2022, 2023 and 2024.

3. BASIS OF COMBINATION

The scope of combination for the Historical Financial Information of Surface Solutions Business for the years ended 31 December 2022, 2023 and 2024 was determined based on the legal reorganisation concept. That is, the Historical Financial Information generally reflect all entities, operations, assets and liabilities which, as a result of the legal reorganisation under common control of Merck KGaA will be part of the Surface Solutions Business by the date of the demerger.

The Surface Solutions Business represents a collection of economic activities which represents a business under IFRS Accounting Standards.

The Historical Financial Information is prepared on the basis that the Perimeter Entities, forming the Surface Solutions Business, were under the common control and management of the Merck KGaA and have been managed as a single business by the Merck KGaA throughout the years ended 31 December 2022, 2023 and 2024.

During the Relevant Periods, activities of Surface Solutions Business have been conducted in a variety of legal entities, many of which also conducted business activities other than Surface Solutions Business (the "Mixed Entities") and many of which solely conducted Surface Solutions Business operations (the "Dedicated Entities").

Dedicated Entities and operations conducted in Mixed Entities, which constitute a business as defined in accordance with IFRS 3 *Business Combinations*, included with their respective assets and liabilities (historical carrying amounts extracted from the consolidated financial statements of Merck KGaA) as well as income and expenses in the Historical Financial Information for all reporting periods presented.

The transfer of operations that constitute a business as defined in IFRS 3 have been executed as either share deals, which mostly is the case for the Dedicated Entities, or by way of an asset deal, which mainly applies to the operations in Mixed Entities.

In general, Dedicated Entities have been reflected in the Historical Financial Information in their entirety. For Mixed Entities, the attribution of long lived assets and liabilities is based on the executed legal transfer or in-tended legal transfer concept as of the date of the demerger, or in case such assets and liabilities were already derecognised in periods prior to the legal transfer, based on whether such assets or liabilities were directly attributable to Surface Solutions Business. Short-term assets and liabilities were presented in the Historical Financial Information if they were directly attributable to Surface Solutions Business. Short-term assets and liabilities that were not directly attributable to Surface Solutions Business were excluded, unless such items were expected to be legally transferred to Surface Solutions Business. Income and expenses for Mixed Entities are presented based on the concept of reflecting all costs of doing business by direct attribution or allocation of the costs historically incurred for Surface Solutions Business. Transactions and balances between the Perimeter Entities are eliminated. Transactions and balances between the Surface Solutions Business and the remaining Merck Group that is not part of the transaction have been presented as external transactions and balances and have been disclosed as related party transactions and balances in accordance with IAS 24 *Related Party Disclosures*. For the purpose of cost allocation, reasonable basis have been used and applied consistently during the periods under consideration. For further details refer to Note 4.

The Historical Financial Information are prepared on a carve-out basis and comprise the combined statements of financial position as of 31 December 2022, 2023 and 2024, combined statements of profit or loss and other comprehensive income, combined statements of cash flows and the notes to the Historical Financial Information for the years ended 31 December 2022, 2023 and 2024.

These Historical Financial Information have been prepared in Euros, the functional currency and the presentation currency of the Surface Solutions Business.

The material accounting policies used in the Historical Financial Information are presented in Note 6.

4. BASIS OF ALLOCATION

All separately identifiable assets and liabilities, income and expenses and cash flows that are attributable to the Surface Solutions Business have been included in the Historical Financial Information.

Certain financial assets and liabilities are managed at the Merck Group level for the entire Merck Group (including the Surface Solutions Business). Treatment of these balances in the Historical Financial Information is as described below:

Corporate cost allocation

The Merck Group incurs a number of corporate costs centrally. These costs comprise costs associated with remuneration of the Merck Group's Board including top executives, provision of treasury services, use of shared assets etc. These costs are recharged to the Perimeter Entities based on pre-defined agreements, on an arm's length basis. The expenses are recognised by the Perimeter Entities in their statutory accounts and are included as such in the Historical Financial Information as presented below:

Year ended 31 December 2022:

	Before corporate cost allocation	**Corporate cost allocation**	**Total**
	€'million	*€'million*	*€'million*
Revenue	433	—	433
Cost of sales	(239)	(9)	(248)
Gross profit	194	(9)	185
Other income	1	2	3
Marketing and selling expenses	(100)	(2)	(102)
Administrative expenses	—	(25)	(25)
Research and development expenses	(11)	(8)	(19)
Other operating expenses	(3)	(6)	(9)
Operating result (EBIT) (note)	81	(48)	33
Finance costs	(1)	—	(1)
Profit before tax	80	(48)	32
Income tax (expense) credit	(19)	15	(4)
Profit for the year	61	(33)	28

Year ended 31 December 2023:

	Before corporate cost allocation	Corporate cost allocation	Total
	€'million	*€'million*	*€'million*
Revenue	405	—	405
Cost of sales	(240)	(7)	(247)
Gross profit	165	(7)	158
Other income	1	1	2
Marketing and selling expenses	(89)	(1)	(90)
Administrative expenses	—	(20)	(20)
Research and development expenses	(11)	(5)	(16)
Other operating expenses	(6)	(8)	(14)
Operating result (EBIT) (note)	60	(40)	20
Finance costs	(2)	—	(2)
Profit before tax	58	(40)	18
Income tax (expense) credit	(12)	12	—
Profit for the year	46	(28)	18

Year ended 31 December 2024:

	Before corporate cost allocation	Corporate cost allocation	Total
	€'million	*€'million*	*€'million*
Revenue	402	—	402
Cost of sales	(266)	(5)	(271)
Gross profit	136	(5)	131
Other income	—	1	1
Marketing and selling expenses	(87)	(2)	(89)
Administrative expenses	—	(20)	(20)
Research and development expenses	(10)	(5)	(15)
Other operating expenses	(3)	(6)	(9)
Operating result (EBIT) (note)	36	(37)	(1)
Finance costs	(2)	—	(2)
Profit (loss) before tax	34	(37)	(3)
Income tax (expense) credit	(10)	12	2
Profit (loss) for the year	24	(25)	(1)

Note: Operating result (EBIT) before corporate cost allocation are €81 million, €60 million and €36 million respectively for the years ended 31 December 2022, 2023 and 2024.

5. APPLICATION OF IFRS ACCOUNTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Surface Solutions Business has consistently applied the accounting policies which conform with IFRS Accounting Standards issued by the IASB that are effective for the Surface Solutions Business's financial year beginning 1 January 2024 and throughout the Relevant Periods.

The Surface Solutions Business has not early applied the following amendments to IFRS Accounting Standards that have been issued but are not yet effective:

Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments[3]
Amendments to IFRS 9 and IFRS 7	Contract Referencing Nature-Dependent Electricity[3]
Amendments to IFRS 10 and IAS 28	Sales or Contribution of Assets between an Investor and its Associates or Joint Venture[1]
Amendments to IFRS Accounting Standards	Annual Improvements to IFRS Accounting Standards - Volume 11[3]
Amendments to IAS 21	Lack of Exchangeability[2]
IFRS 18	Presentation and Disclosure in Financial Statments[4]
IFRS 19	Subsidiaries without Public Accountability: Disclosures[4]

1 Effective for annual periods beginning on or after a date to be determined
2 Effective for annual periods beginning on or after 1 January 2025
3 Effective for annual periods beginning on or after 1 January 2026
4 Effective for annual periods beginning on or after 1 January 2027

Except for the new IFRS Accounting Standard mentioned below, the management of the Surface Solutions Business anticipate that the application of all amendments to IFRS Accounting Standards will have no material impact on the financial statements of the Surface Solutions Business in the foreseeable future.

IFRS 18 *Presentation and Disclosure in Financial Statements*

IFRS 18 *Presentation and Disclosure in Financial Statements*, which sets out requirements on presentation and disclosures in financial statements, will replace IAS 1 *Presentation of Financial Statements*. This new IFRS Accounting Standard, while carrying forward many of the requirements in IAS 1, introduces new requirements to present specified categories and defined subtotals in the statement of profit or loss; provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation of information to be disclosed in the financial statements. In addition, some IAS 1 paragraphs have been moved to IAS 8 and IFRS 7. Minor amendments to IAS 7 *Statement of Cash Flows* and IAS 33 Earnings per Share are also made.

IFRS 18, and amendments to other standards, will be effective for annual periods beginning on or after 1 January 2027, with early application permitted. The application of the new standard is expected to affect the presentation of the statement of profit or loss and disclosures in the future financial statements. The management of the Surface Solutions Business is in the process of assessing the detailed impact of IFRS 18 on the combined financial statements.

6. MATERIAL ACCOUNTING POLICY INFORMATION

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any. When the Merck Group disposes the Surface Surfaces Business from one of its segment (a cash-generating unit), the amount of goodwill disposed of is measured on the basis of the relative values of the Surface Solutions Business disposed of and the portion of the cash-generating unit retained.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

Revenue

Information about the Surface Solutions Business' accounting policies relating to the revenue from contracts with customers is provided in notes 7 and 23.

Leases

The Surface Solutions Business assess whether a contract is or contains a lease based on the definition under IFRS 16 at inception o f the contract. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Surface Solutions Business as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Surface Solutions Business allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Surface Solutions Business applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date; and
- any initial direct costs incurred by the Surface Solutions Business.

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

The Surface Solutions Business presents right-of-use assets as a separate line item on the combined statements of financial position.

Lease liabilities

At the commencement date of a lease, the Surface Solutions Business recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Surface Solutions Business uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Surface Solutions Business remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- a lease contract is modified and the lease modification is not accounted for as a separate lease (see below for the accounting policy for "lease modifications").

The Surface Solutions Business presents lease liabilities as a separate line item on the combined statements of financial position.

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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

For the purposes of presenting the combined financial statements, the assets and liabilities of the Surface Solutions Business' operations are translated into the presentation currency of the Surface Solutions Business (i.e. €) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of Exchange differences.

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing the benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. In determining the present value of the Surface Solutions Business' defined benefit obligations and the related current service cost and, where applicable, past service cost, the Surface Solutions Business attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than earlier years, the Surface Solutions Business attributes the benefit on a straight-line basis from:

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until.

(b) the date when further service by the employee will lead to no material amount of further benefits under the plan other than from further salary increases.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the combined statements of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Surface Solutions Business remeasures the net defined benefit liability or asset before the plan amendment, curtailment or settlement, the Surface Solutions Business determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the combined statements of financial position represents the actual deficit or surplus in the Surface Solutions Business' defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans and reductions in future contributions to the plans.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- if the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.

- if contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the Surface Solutions Business reduces service cost by attributing the contributions to periods of service using the attribution mention required by IAS 19 *Employee Benefits* for the gross benefits (i.e. either using the plan's contribution formula or on a straight-line basis). For the amount of contribution that is independent of the number of years of service, the Surface Solutions Business reduces service cost in the period in which the related service is rendered/reduces service cost by attributing contributions to the employees' periods of service in accordance with IAS 19.

Short-term employee benefits

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

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

Share-based payments

Cash-settled share based payment transactions

For cash-settled share-base payment, a liability is recognised for the goods or services acquired, measure initially at the fair value of the liability. The fair value of the cash-settled share-based payments is determined without taking into consideration all non-market vesting conditions.

At the end of each reporting period until the liability is settled, and at the date of settlement, the liability is remeasured to fair value. For cash-settled share-based payments that are already vested, any changes in fair value are recognised in profit or loss for the year. For cash-settled share-based payments which are still subject to non-market vesting conditions, the effects of vesting and non-vesting conditions are accounted on the same basis as equity-settled share-based payments.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit (loss) before tax' as reported in the combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years/periods and items that are never taxable or deductible. The Surface Solutions Business' liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the combined statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary 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 difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary difference.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Surface Solutions Business expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Surface Solutions Business recognises the right-of-use assets and the related lease liabilities, the Surface Solutions Business first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deduction are attributable to the lease liabilities, the Surface Solutions Business applies IAS 12 requirements to the lease liabilities and the related assets separately. The Surface Solutions Business recognised a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

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

Current tax assets or current tax liabilities are recognised in an entity that is legally required to claim the tax assets from or settle the tax liabilities to the taxation authorities. Current tax assets or current tax liabilities and current tax income or expense resulting from the Surface Solutions Business activities in Mixed Entities are considered as contribution or withdrawal from Merck KGaA. This is because the tax asset or liability is deemed to be settled immediately by the Mixed Entities and, as such, is accounted for as a contribution or withdrawal. Likewise, deferred tax income or expense from tax losses and tax credits is reversed against equity.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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

Freehold lands are not depreciated and are measure at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment losses. Cost include any costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related asset is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Surface Solutions Business' accounting policy.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

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

Intangible assets

Intangible asset with finite useful life that is acquired separately is carried at cost less any accumulated impairment losses. Amortisation for intangible asset with finite useful life commences when the asset is available for use and is recognised on a straight-line basis over its estimated useful life. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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

At the end of each reporting period, the Surface Solutions Business reviews the carrying amounts of its property, plant and equipment, intangible assets and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible asset not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, intangible assets and right-of-use assets, are estimated individually. When it is not possible to estimate the recoverable amount individually, the Surface Solutions Business estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of manufactured, finished, and unfinished materials, raw materials, and merchandise are determined on a first-in, first-out method and cost of supplies are determined on weighted average method. Net realisable value represents estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Surface Solutions Business must incur to make the sale.

Provisions

Provisions are recognised when the Surface Solutions Business has a present obligation (legal or constructive) as a result of a past event, it is probable that the Surface Solutions Business will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Surface Solutions Business has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

Impairment of financial assets subject to impairment assessment under IFRS 9

The Surface Solutions Business performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables and amounts due from related parties) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at the end of each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The Surface Solutions Business always assesses lifetime ECL for trade receivables.

(i) Significant increase in credit risk

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

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

(ii) Definition of default

For internal credit risk management, the Surface Solutions Business considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Surface Solutions Business, in full (without taking into account any collaterals held by the Surface Solutions Business).

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

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Surface Solutions Business writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Surface Solutions Business' recovery procedures, taking into account legal advice where appropriate. Any subsequent recoveries are recognised in profit or loss.

Derecognition of financial assets

The Surface Solutions Business derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

Financial liabilities and equity

Classification as debt or equity

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

Equity Instruments

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

Financial liabilities

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

The Surface Solutions Business derecognises financial liabilities when, and only when, the Surface Solutions Business' obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

7. REVENUE

Disaggregation of revenue from contracts with customers

An analysis of Surface Solutions Business' revenue by product type is as follows:

	Year ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Recognised at a point in time:			
Cosmetics products	157	157	148
Automotive (Coatings)	158	146	148
Industrial products	118	102	106
	433	405	402

Sale of goods

For sales of goods, the customer typically obtains control depending on the delivery and the shipping terms involved, given that the customer is generally not able to obtain any benefits from the asset before that point in time.

8. OTHER OPERATING INCOME

	Year ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Income from third parties	2	2	1
Others	1	—	—
	3	2	1

9. FINANCE COSTS

	Year ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Net interest on pension provisions	1	2	2

10. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax has been arrived at after charging:

	Year ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Depreciation of property, plant and equipment	13	17	13
Depreciation of right-of-use assets	6	5	6
Amortisation of intangible assets	1	1	1
Auditor's remuneration (note)	—	—	—
Cost of inventories recognised as an expense	248	247	271
Write-off of inventories	2	20	2
Research and development costs recognised as an expense	19	16	15
Wages and salaries	104	93	91
Compulsory social security contributions and other costs	19	14	16
Pension expenses	8	7	8
Cash-settled share-based payments	1	—	1
Total staff costs	132	114	116

Note: The amount is less than €1 million.

11. INCOME TAX EXPENSE (CREDIT)

	Year ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Current tax	32	18	18
Deferred tax:			
Change in deferred tax assets	18	(5)	—
Change in deferred taxes recognised as contributions or transfer from invested equity attributable to Merck Group	(46)	(13)	(20)
	(28)	(18)	(20)
	4	—	(2)

Taxation of the Surface Solutions Business for the 3 years ended 31 December 2022, 2023 and 2024 is calculated by applying the statutory tax rate of 31% in Germany as the Surface Solutions Business is headquartered in Germany.

The Surface Solutions Business is operating in certain jurisdictions where the Pillar Two Rules are effective. However as the combined revenue of the Surface Solutions Business is less than EUR750 million, the management of the Surface Solutions Business considered the Surface Solutions Business is not liable to top-up tax under the Pillar Two Rules and has not made relevant disclosures of qualitative and quantitative information about the Surface Solutions Business' exposure to the Pillar Two income taxes.

A reconciliation of the tax expense (credit) applicable to profit (loss) before tax at the statutory rate in Germany to the tax expense at the effective tax rates is as follows:

	Year ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Profit (loss) before tax	32	18	(3)
Tax effect at statutory tax rate (31%)	10	6	(1)
Tax effect of expenses not deductible for tax purpose	—	—	1
Tax effect of income not taxable for tax purpose	(2)	(4)	(1)
Effect of different tax rates of Surface Solutions Business' entities operating in other jurisdictions	(2)	(2)	(1)
Others	(2)	—	—
Income tax expense (credit) for the year	4	—	(2)

12. DIVIDENDS

No dividend has been declared or paid by the Surface Solutions Business during the Relevant Periods.

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful having regard to the Reorganisation and the result of the Surface Solutions Business that is prepared on a combined basis as disclosed in Note 3 to the Historical Financial Information.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings €'million	Plant and machinery €'million	Other facilities, operating and office equipment €'million	Construction in progress €'million	Total €'million
Cost					
At 1 January 2022	76	369	48	19	512
Additions	—	5	2	16	23
Disposals	—	(4)	(3)	(2)	(9)
Transfer	1	5	—	(6)	—
Exchange adjustments	(1)	(1)	—	—	(2)
At 31 December 2022	76	374	47	27	524
Additions	2	6	1	19	28
Disposals	(1)	(1)	(2)	(2)	(6)
Transfer	—	1	—	(1)	—
Exchange adjustments	(5)	(11)	(1)	(1)	(18)
At 31 December 2023	72	369	45	42	528
Additions	1	11	2	13	27
Disposals	(3)	(8)	(6)	(13)	(30)
Transfer	2	8	2	(12)	—
Exchange adjustments	1	2	1	(1)	3
At 31 December 2024	73	382	44	29	528
Depreciation and impairment					
At 1 January 2022	50	324	42	6	422
Charge for the year	2	9	2	—	13
Eliminated on disposals	—	(4)	(3)	—	(7)
Exchange adjustments	—	(2)	—	—	(2)
At 31 December 2022	52	327	41	6	426
Charge for the year	3	12	2	—	17
Eliminated on disposals	(1)	(1)	(2)	—	(4)
Exchange adjustments	(4)	(10)	(1)	—	(15)
At 31 December 2023	50	328	40	6	424
Charge for the year	2	10	1	—	13
Eliminated on disposals	(1)	(12)	(4)	—	(17)
Exchange adjustments	—	1	1	—	2
At 31 December 2024	51	327	38	6	422
Net book value					
At 31 December 2022	24	47	6	21	98
At 31 December 2023	22	41	5	36	104
At 31 December 2024	22	55	6	23	106

The above items of property, plant and equipment except for freehold land and construction in progress are depreciated on a straight-line basis after taking into account of the residual value as follows:

Buildings	not less than 2.5% to 3% per annum
Plant and machinery	7% to 17% per annum
Other facilities, operating and office equipment	10% to 33% per annum

15. RIGHT-OF-USE ASSETS

	Land, land rights and buildings	Other facilities operating and office equipment	Total
	€'million	*€'million*	*€'million*
As at 31 December 2022			
Carrying amount	16	—	16
As at 31 December 2023			
Carrying amount	10	—	10
As at 31 December 2024			
Carrying amount	13	1	14
For the year ended 31 December 2022			
Depreciation charge	5	1	6
For the year ended 31 December 2023			
Depreciation charge	5	—	5
For the year ended 31 December 2024			
Depreciation charge	5	1	6

	Year ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Total cash outflow for leases	4	6	6
Additions to right-of-use assets	3	1	9

During the Relevant Periods, the Surface Solutions Business leases land, land rights and buildings and other facilities, operating and office equipment for its operations. Except for lease contracts for land, land rights and buildings which are entered into for a fixed term of 4 to 7 years, lease contracts for other facilities, operating and office equipment are entered into for fixed term of 3 to 4 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Surface Solutions Business applies the definition of a contract and determines the period for which the contract is enforceable.

As at 31 December 2022, 2023 and 2024, the Surface Solutions Business did not enter into new leases that have not yet commenced.

Details of the lease maturity analysis of lease liabilities are set out in notes 26 and 33.

16. OTHER INTANGIBLE ASSETS

	Customer relationships, brands and trademarks	**Patents and license and similar rights (finite useful life)**	**Software and software in development**	**Total**
	€'million	*€'million*	*€'million*	*€'million*
Cost				
At 1 January 2022	2	64	4	70
Disposals	—	(1)	(1)	(2)
Exchange adjustments	—	(2)	—	(2)
At 31 December 2022	2	61	3	66
Exchange adjustments	—	(4)	(1)	(5)
At 31 December 2023	2	57	2	61
Additions	—	1	—	1
Disposals	—	(1)	—	(1)
Exchange adjustments	—	(2)	—	(2)
At 31 December 2024	2	55	2	59

	Customer relationships, brands and trademarks	Patents and license and similar rights (finite useful life)	Software and software in development	Total
	€'million	*€'million*	*€'million*	*€'million*
Amortisation				
At 1 January 2022	2	61	3	66
Charge for the year	—	1	—	1
Eliminated on disposal	—	(1)	(1)	(2)
Exchange adjustments	—	(2)	—	(2)
At 31 December 2022	2	59	2	63
Charge for the year	—	1	—	1
Exchange adjustments	—	(5)	—	(5)
At 31 December 2023	2	55	2	59
Charge for the year	—	1	—	1
Eliminated on disposal	—	(1)	—	(1)
Exchange adjustments	—	(1)	—	(1)
At 31 December 2024	2	54	2	58
Carrying Values				
At 31 December 2022	—	2	1	3
At 31 December 2023	—	2	—	2
At 31 December 2024	—	1	—	1

The above items of intangible assets other than software in development have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Patents, licenses and similar rights	5 to 11 years

17. GOODWILL

	€'million
Cost	
At 1 January 2022, 31 December 2022, 2023 and 2024	162
Impairment	
At 1 January 2022 and 31 December 2022, 2023 and 2024	—
Carrying Values	
At 31 December 2022, 31 December 2023 and 31 December 2024	162

Goodwill attributable to the Surface Solutions Business is allocated by Merck Group as at 31 December 2022, 2023 and 2024.

During the Relevant Periods, goodwill is tested for impairment by Merck Group. The recoverable amount of the goodwill have been determined on the basis of the fair value less cost of disposal, which is calculated using the discounted cash flow method (level 3 in the IFRS 13 Fair Value Measurement) based on weighted cost of capital after tax of 7.1%, 8.1% and 7.6% respectively for the years ended 31 December 2022, 2023 and 2024. The key assumptions used by management of Merck Group in setting the discounted cashflow were as follows:

(a) Forecast sales growth - based on internal past experience and largely non-observable input factors in the market such as new products from the development pipeline, expected future market shares, selling prices and volumes.

(b) Long-term growth rate at 2% per annum for each of the three years ended 31 December 2024, taking into account expected long-term growth and long-term inflation expectations.

18. INVENTORIES

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Raw materials	162	177	149
Work in progress	58	59	70
Finished goods	39	45	34
	259	281	253

19. TRADE AND OTHER RECEIVABLES, AND PREPAYMENTS

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Trade receivables	78	68	63
Less: allowance for credit losses	(1)	(1)	(1)
Total trade receivables	77	67	62
Retirement benefit assets	1	1	1
Prepayments	4	1	1
Receivable from non-income related tax	9	5	6
Other receivables	12	4	8
Others	4	3	3
Total trade and other receivables, and prepayments	107	81	81
Analysed as:			
- Non-current	1	—	—
- Current	106	81	81
Total trade and other receivables, and prepayments	107	81	81

As at 31 December 2022, 2023 and 2024, the Surface Solutions Business has trade receivables comprise receivables from contracts with customers of €77 million, €67 million and €62 million, respectively.

As at 1 January 2022, the amount of trade receivables from contracts with customers of the Surface Solutions Business amounted to €79 million.

The Surface Solutions Business generally grants credit terms ranging from 30 to 60 days to its customers. The following is an aged analysis of gross trade receivables of the Surface Solutions Business, presented based on due date at the end of the reporting period is set out below:

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Not overdue	52	52	51
Up to 90 days past due	24	16	12
Up to 180 days past due	2	—	—
	78	68	63

As at 31 December 2022, 2023 and 2024, included in the trade receivable balance of the Surface Solutions Business are debtors with aggregate carrying amount of €26 million, €16 million and €12 million respectively which are past due as at the reporting date. Out of the past due balances, €2 million, nil and nil has been past due 90 days or more as at 31 December 2022, 2023 and 2024 respectively but not considered default. The Surface Solutions Business does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in note 32.

20. AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties relate to cash pooling arrangement with Merck Group which are non-trade related, unsecured, interest bearing at an internally agreed interest rate and repayable on demand as at 31 December 2022, 2023 and 2024.

21. TRADE AND OTHER PAYABLES

	As at 31 December		
	2022	2023	2024
	€'million	€'million	€'million
Trade payables	50	25	25
Accrued payroll and other expenses	15	11	17
Provision for employee benefits	52	53	56
Other tax payable	3	2	1
Other payables	4	8	3
	124	99	102
Analysed as:			
- Non-current	47	51	54
- Current	77	48	48
	124	99	102

The following is an aged analysis of trade payables of the Surface Solutions Business presented based on the due date.

	As at 31 December		
	2022	2023	2024
	€'million	€'million	€'million
Not overdue	50	25	25

22. REFUND LIABILITIES

	As at 31 December		
	2022	2023	2024
	€'million	€'million	€'million
Refund liabilities arising from rebates	1	1	1

23. CONTRACT LIABILITIES

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Advances received in relation to sale of goods	3	4	3

As at 1 January 2022, contract liabilities amounted to €'2 million. Contract liabilities are classified as current based on the Surface Solutions Business' obligation to transfer goods to customers.

All of the contract liabilities at the end of each reporting period were recognised as revenue in subsequent year.

24. LOANS FROM RELATED PARTIES

As at 31 December 2022, 2023 and 2024, the loans with related parties represent loans granted by Merck Group to the Surface Solutions Business which are non-trade related, unsecured, interest bearing at an internally agreed interest rate and repayable on demand.

25. AMOUNTS DUE TO RELATED PARTIES

Except for the amount due to a related party amounted to €5 million as at 31 December 2023 which is non-trade related and interest-free and the amount due to a related party amounted to €24 million relate to cash pooling arrangement with Merck Group as at 31 December 2024 which is non-trade related and interest bearing at an internally agreed interest rate, the remaining balances are trade-related unsecured and repayable on demand.

The following is an aged analysis of trade-related amounts due to related parties of the Surface Solutions Business presented based on the due date.

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Not overdue	3	2	2

26. LEASE LIABILITIES

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Lease liabilities payable:			
Within one year	5	5	4
Within a period of more than one year but not exceeding two years	5	4	3
Within a period of more than two years but not exceeding five years	7	3	5
Within a period of more than five years	—	—	3
	17	12	15
Less: Amount due for settlement within 12 months shown under current liabilities	(5)	(5)	(4)
Amount due for settlement after 12 months shown under non-current liabilities	12	7	11

As at 31 December 2022, 2023 and 2024, the weighted average incremental borrowing rates applied to lease liabilities is 1.4%, 1.6% and 2.7% respectively.

27. PROVISIONS

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Analysed for reporting purpose as:			
Non-current liabilities	2	2	1
Current liabilities	2	3	2
	4	5	3

	Litigation	Restructuring	Others	Total
	€'million	*€'million*	*€'million*	*€'million*
At 1 January 2022	—	7	4	11
Addition	—	4	1	5
Utilisation	—	(6)	(2)	(8)
Release	—	(2)	(2)	(4)
At 31 December 2022	—	3	1	4
Additions	1	4	1	6
Utilisation	(1)	(2)	—	(3)
Release	—	(1)	(1)	(2)
At 31 December 2023	—	4	1	5
Additions	1	2	1	4
Utilisation	(1)	(2)	—	(3)
Release	—	(2)	(1)	(3)
At 31 December 2024	—	2	1	3

The Surface Solutions Business use formal restructuring plans and the expectations of the affected employees concerning the performance of the restructuring measures to assess the recognition obligation for provisions for restructuring projects and the amount of the expected outflow of resources.

28. DEFERRED TAX ASSETS

The following is a summary of the deferred tax balances after offsetting for financial reporting purposes:

	As at 31 December		
	2022	2023	2024
	€'million	*€'million*	*€'million*
Deferred tax assets	16	21	21

The following are the major deferred tax assets recognised and movements thereon before offsetting during the years ended 31 December 2022, 2023 and 2024.

	Property, plant and equipment	Inventories	Accruals for pension and other provisions	Others	Total
	€'million	*€'million*	*€'million*	*€'million*	*€'million*
At 1 January 2022	2	4	26	2	34
(Charged) credited to profit or loss	—	(1)	(15)	(2)	(18)
At 31 December 2022	2	3	11	—	16
Credited to profit or loss	—	—	5	—	5
At 31 December 2023	2	3	16	—	21
(Charged) credited to profit or loss	(1)	1	—	—	—
At 31 December 2024	1	4	16	—	21

29. RETIREMENT BENEFITS PLANS

The vast majority of defined benefit obligations of German entities were attributable to plans that encompass old-age, disability, and surviving dependent pensions. These obligations were based on benefit rules comprising benefit commitments dependent on years of service and final salary, as well as two different direct commitments for employees newly hired since 1 January 2005, that is not based on the final salary. The benefit entitlement for new members from 1 January 2005, to 31 December 2020, resulted from the cumulative total of annually determined pension components calculated on the basis of a defined benefit expense and an age-based annuity table. The benefit entitlement for new members from 1 January 2021, resulted from the performance of salary-based employer contributions and voluntary employee contributions, topped up by the employer, to an external fund. A minimum return on contributions has been guaranteed. There were no statutory minimum funding obligations in Germany. Pension obligations in Japan resulted primarily from benefit plans which are based on years of service and final salary and were closed to newly hired employees from 30 April 2013. The agreed benefits comprised retirement and surviving dependent benefits. The employer made contributions to the plans. Statutory minimum funding obligations did not exist.

In relation to the pension obligations for the other countries, the most significant balances relate to Switzerland and France. Pension obligations in Switzerland mainly comprised retirement, disability and surviving dependent benefits regulated by law. The employer and the employees made contributions to the plans. Statutory minimum funding obligations existed. On the other hand, the pension obligation in France is provided as lump-sum payments at retirement, determined by the years of service and the applicable salary. These benefits are typically based on tariff agreements and are offered by most companies in the country, albeit with some variations. The funding of these plans is not mandatory and relatively uncommon.

The principal assumptions used for the purposes of actuarial valuations were as follows:

	Valuation at 31 December		
	2022	**2023**	**2024**
Germany:			
Discount rate	3.74%	3.32%	3.50%
Expected rate of long-term salary increases	2.75%	2.75%	3.00%
Expected rate of long-term pension increases	2.15%	2.15%	2.14%
Japan:			
Discount rate	0.80%	1.50%	1.50%
Expected rate of long-term salary increases	2.00%	2.00%	2.00%
Other countries:			
Discount rate	4.38%	4.68%	3.91%
Expected rate of long-term salary increases	3.20%	3.30%	2.20%
Expected rate of long-term pension increases	0.27%	0.35%	0.38%

As at 31 December 2022, 2023 and 2024, the actuarial valuation showed that the market value of plan assets was approximately €49 million, €57 million and €61 million respectively and that the actuarial value of these assets represented 56%, 56% and 56% of the benefits that had accrued to members respectively.

Amounts recognised in combined statements of profit or loss and other comprehensive income in respect of these defined benefit obligations are as follows:

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Current service cost	7	4	5
Interest expense	2	3	3
Interest income on plan assets	(1)	(1)	(1)
Components of defined benefit costs recognised in profit or loss	8	6	7

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Remeasurement on defined benefit obligations:			
Actuarial gains (losses) arising from changes in financial assumptions	48	(8)	4
Actuarial gains (losses) arising from experience adjustments	3	7	(1)
Decrease in cumulative other comprehensive income due to effect of business transfers	—	3	—
Components of defined benefit costs recognised in other comprehensive income	51	2	3

During the Relevant Periods, the expense for the year has been included in salaries, bonus and pension expenses. The remeasurement of defined benefit obligations is included in other comprehensive income.

The amount included in the combined statements of financial position arising from the Surface Solutions Business' obligation in respect of the plan is as follows:

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Fair value of plan assets	49	57	61
Present value of defined benefit obligations	(87)	(101)	(108)
Net liability arising from defined benefit obligations	(38)	(44)	(47)

Movement in the present value of the defined benefit obligations in the Relevant Periods were as follows:

	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
At January	137	87	101
Current service cost	7	4	5
Interest expense	2	3	3
Actuarial (gains) losses arising from changes in financial assumptions	(48)	8	(4)
Actuarial (gains) losses arising from changes in experience adjustments	(10)	—	3
Exchange difference	—	—	—
Benefits paid	(1)	(1)	—
At 31 December	87	101	108

Movement in the fair value of the plan asset in the Relevant Periods were as follows:

	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
At January	56	49	57
Interest income	1	1	1
Actuarial (losses) gains arising from changes in experience adjustments	(7)	7	2
Exchange difference	—	1	1
Benefits paid	(1)	(1)	—
At 31 December	49	57	61

The fair value of the plan assets at the end of each reporting period for each category, are as follows:

	2022	2023	2024
	€'million	*€'million*	*€'million*
Cash and cash equivalents	2	1	2
Equity instruments	10	11	11
Debt instruments	13	23	24
Investment funds	17	16	18
Insurance contracts	7	6	6
At 31 December	49	57	61

During the year ended 31 December 2022, 2023 and 2024, the actual return on plan assets was approximately €6 million, €9 million and €4 million respectively.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected rate of long-term salary increases and expected rate of long-term pension increases (except for Japan). The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligation as at 31 December 2022, 2023 and 2024 would decrease by approximately €9 million, €11 million and €11 million respectively (increase by approximately €10 million, €12 million and €12 million respectively).

- If the expected salary growth increases (decreases) by 50 basis points, the defined benefit obligation as at 31 December 2022, 2023 and 2024 would increase by approximately €4 million, €4 million and €4 million respectively (decrease by approximately €4 million, €5 million and €4 million respectively)

- If the expected pension growth increases (decreases) by 50 basis points, the defined benefit obligation as at 31 December 2022, 2023 and 2024 would increase by approximately €5 million, €6 million and €6 million respectively (decrease by approximately €4 million, €5 million and €6 million respectively)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of each reporting period, which is the same as the applied in calculating the defined benefit obligation liability recognised in the combined statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis for the Relevant Periods.

30. SHARE-BASED PAYMENT TRANSACTIONS

Merck KGaA issued to certain employees Merck KGaA share units ("MSUs") that require Merck KGaA to pay the intrinsic value of the MSUs to the employees subsequent to end of each reporting period. At 31 December 2022, 2023 and 2024, the Surface Solutions Business has recorded liabilities of €3 million, nil and nil respectively. The fair value of the MSUs is determined using Monte Carlo simulation based on the assumptions such as weighted average share price, expected volatility, risk-free rate and expected dividend yield.

During the year ended 31 December 2022, 2023 and 2024, share-based payment expenses of €1 million, nil and €1 million has been recognised in profit or loss respectively. As at 31 December 2022, 2023 and 2024, the total intrinsic value of the vested MSUs was nil, nil and nil respectively.

31. RELATED PARTY DISCLOSURES

Apart from details of balances with related parties disclosed in the combined statement of financial position, the Surface Solutions Business had also entered into the following transactions with related parties:

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follow:

	Year ended 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
Short-term employee benefits	4	4	5
Share-based payment expenses	1	—	—
	5	4	5

The remuneration of key management personnel is determined by the management of the Surface Solutions Business having regard to the performance of individuals and market trends.

32. PARTICULARS OF PERIMETER ENTITIES

Details of the material Perimeter Entities at the end of the reporting period are set out below:

Name of Perimeter Entities	Place of operation/ establishment	Issued and fully paid share capital/ registered capital as at 31 December			Shareholding/equity interest attributable to the Merck KGaA as at 31 December			Principal activities
		2022	2023	2024	2022	2023	2024	
		€'million	*€'million*	*€'million*	*€'million*	*€'million*	*€'million*	
SUSONITY Services GmbH	Germany	4	4	4	100%	100%	100%	Surface Solutions Business
SUSONITY Commercial GmbH	Germany	note	note	note	100%	100%	100%	Surface Solutions Business
Surface Solutions LLC	United States of America	N/A	note	note	N/A	100%	100%	Surface Solutions Business
Surface Solutions, Inc	Republic of Korea	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
Surface Materials (Thailand) Ltd.	Thailand	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
SURFACE MATERIALS LTD	United Kingdom	note	note	note	100%	100%	100%	Surface Solutions Business
Surface Solutions Sdn. Bhd.	Malaysia	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
SUSONITY sp. z.o.o.	Poland	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
Surface Solutions S.A.S.	France	N/A	note	note	N/A	100%	100%	Surface Solutions Business
SURFACE SOLUTIONS BRASIL LTDA	Brazil	N/A	N/A	note	N/A	N/A	100%	Surface Solutions Business
SUSONITY Holdings G.K.	Japan	141	128.7	126.8	100%	100%	100%	Surface Solutions Business
Merck S.r.l.	Italy	60.7	45.2	46.3	100%	100%	100%	Surface Solutions Business
SUSONITY Japan G.K.	Japan	97.2	92.4	97.9	100%	100%	100%	Surface Solutions Business
SUSONITY Production GmbH	Germany	63.1	58.2	62.4	100%	100%	100%	Surface Solutions Business

Note: Not disclosed owing a minor significance.

33. CAPITAL AND FINANCIAL RISK MANAGEMENT

The capital management for the Surface Solutions Business was performed by Merck KGA during the Relevant Periods.

The capital structure of the Surface Solutions Business consists of net debt, which includes equity attributable to owners of the Surface Solutions Business, comprising invested equity attributable to Merck Group and reserves.

Categories of financial instruments

	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
The Surface Solutions Business			
Financial assets			
Amortised costs	112	86	70
Financial liabilities			
Amortised costs	74	55	64
Lease liabilities	17	12	15

Financial risk management objectives and policies

The Surface Solutions Business' financial instruments includes trade and other receivables, amounts due from/to related parties, trade and other payables, loans from related parties and lease liabilities.

Details of these financial instruments are disclosed in the respective notes. The risk associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Surface Solutions Business manages and monitors these exposures to ensure appropriate measure are implemented on a timely and effective manner.

Currency risk

The Surface Solutions Business has sales and purchase denominated in foreign currencies for its operations, which expose the Surface Solutions Business to foreign currency risk during the Relevant Periods.

The Surface Solutions Business currently does not have a foreign currency hedging policy. However, management of the Surface Solutions Business monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Surface Solutions Business' foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	As at 31 December		
	2022	**2023**	**2024**
	€*'million*	€*'million*	€*'million*
The Surface Solutions Business			
Assets			
Renminbi ("RMB")	12	10	13
United States dollar ("USD")	13	14	11
Japanese Yen ("JPY")	50	40	4
Indian Rupee ("INR")	2	4	4
Mexican peso ("MXN")	3	2	3
Liabilities			
RMB	1	2	8
USD	13	10	7
JPY	26	24	16
INR	2	1	1
MXN	2	2	1

Sensitivity analysis

The following tables details the Surface Solutions Business' sensitivity to a 5% weakening in the functional currencies of group entities against the relevant foreign currencies of respective group entities, while all other variables are held constant. 5% sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies at the year end. For a 5% strengthening of the functional currencies of group entities against the relevant foreign currencies, these would be an equal and opposite impact on profit after tax.

	(Decrease) increase in profit (loss) after tax		
	As at 31 December		
	2022	**2023**	**2024**
	€'million	*€'million*	*€'million*
The Surface Solutions Business			
RMB	1	—	—
USD	—	—	—
JPY	1	1	(1)
INR	—	—	—
MXN	—	—	—

Interest rate risk

The Surface Solutions Business is exposed to fair value interest rate in relation to the Surface Solutions Business' lease liabilities as at 31 December 2022, 2023 and 2024.

The Surface Solutions Business is exposed to cash flow interest rate risk due to the fluctuation of the variable-rate loans from related parties as at 31 December 2022, 2023 and 2024.

The Surface Solutions Business manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

Management has considered the Surface Solutions Business' exposure to cash flow interest rate risk in relation to variable-rate loans from related parties to be limited.

Credit risk and impairment assessment

The Surface Solutions Business' credit risk is primarily attributable to trade receivables, other receivables and amounts due from related parties.

The Surface Solutions Business' maximum exposure to credit risk which will cause a financial loss to the Surface Solutions Business due to failure to discharge the obligations by counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the combined statements of financial position at the end of each reporting period. The Surface Solutions Business do not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables

The credit risk from trade accounts receivable is largely impacted by the specific circumstances of individual customers. The Surface Solutions Business also considers additional factors such as the general default risk in the respective industry and country in which the customer operates.

The credit risk of customers is assessed using established credit management processes that take individual customer risks into account. This is done by analyzing the aging structure of trade receivables.

The Surface Solutions Business continuously reviews and monitors the open positions of all its customers in the corresponding countries and takes steps to mitigate credit risks if necessary. As at 31 December 2022, 2023 and 2024, the Surface Solutions Business provided €1 million, €1 million and €1 million impairment allowance for trade receivables respectively. Details of the quantitative disclosures are set out below in this note.

Other receivables and amounts due from related parties

12-month ECL ("12m ECL") was used to determine the amount if expected credit loss of other receivables when examining the individual credit risk of the respective contract partner. The credit risk associated with other receivables and amounts due from related parties is considered immaterial for the Relevant Periods.

The Surface Solutions Business' internal credit risk grading assessment comprising the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Level 1	The counterparty has a low risk of default and does not have any past-due amounts and debtor frequently repays after due dates but actually settle in full	Lifetime ECL - not credit-impaired	12m ECL
Level 2	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Level 3	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Surface Solutions Business' financial assets which are subject to ECL assessment:

The Surface Solutions Business

	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount 2022	2023	2024
				€ 'million	*€'million*	*€'million*
Financial assets at amortised cost						
Trade receivables	19	Level 1/2	Lifetime ECL-not credit-impaired	77	67	62
		Level 3	Lifetime ECL-credit-impaired	1	1	1
Other receivables	19	Level 1	12m ECL	12	4	8
Amounts due from related parties	20	Level 1	12m ECL	23	15	—
				113	87	71

Liquidity risk

The Surface Solutions Business manages its liquidity on the basis of short-term, medium-term and long-term liquidity and financing planning.

The following table details the Surface Solutions Business' remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cashflows of financial liabilities based on the earliest date on which the Surface Solutions Business can be required to pay.

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

Liquidity table

	Weighted average effective interest rate	Repayable on demand or less than 1 year	1 - 2 years	2 - 5 years	>5 years	Total undiscounted cash flows	Total carrying amount
	%	*€'million*	*€'million*	*€'million*	*€'million*	*€'million*	*€'million*
At 31 December 2022							
Non-derivative financial liabilities							
Trade payables	—	50	—	—	—	50	50
Other payables	—	4	—	—	—	4	4
Refund liabilities	—	1	—	—	—	1	1
Loans from related parties	(note)	16	—	—	—	16	16
Amounts due to related parties	(note)	3	—	—	—	3	3
Lease liabilities	1.4	5	5	7	—	17	17
		79	5	7	—	91	91
At 31 December 2023							
Non-derivative financial liabilities							
Trade payables	—	25	—	—	—	25	25
Other payables	—	8	—	—	—	8	8
Refund liabilities	—	1	—	—	—	1	1
Loans from related parties	(note)	14	—	—	—	14	14
Amounts due to related parties	(note)	7	—	—	—	7	7
Lease liabilities	1.6	5	4	3	—	12	12
		60	4	3	—	67	67
At 31 December 2024							
Non-derivative financial liabilities							
Trade payables	—	25	—	—	—	25	25
Other payables	—	3	—	—	—	3	3
Refund liabilities	—	1	—	—	—	1	1
Loans from related parties	(note)	9	—	—	—	9	9
Amounts due to related parties	(note)	26	—	—	—	26	26
Lease liabilities	2.7	4	3	5	3	15	15
		68	3	5	3	79	79

Note: The interest rate is internally agreed.

Fair value measurements of financial instruments

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Surface Solutions Business considers that the carrying amounts of financial assets and financial liabilities recognised in the Historical Financial Information approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Amounts due (from) to related parties (non-trade related)	**Loans from related parties**	**Lease liabilities**	**Total**
	€'million	*€'million*	*€'million*	*€'million*
	(notes 20 and 25)	*(note 24)*	*(note 26)*	
At 1 January 2022	(14)	—	18	4
Financing Cashflows	(10)	16	(4)	2
Non-cash items:				
Exchange realignment	1	—	—	1
New lease entered	—	—	3	3
At 31 December 2022	(23)	16	17	10
Financing Cashflows	8	(1)	(6)	1
Non-cash items:				
Exchange realignment	5	(1)	—	4
New lease entered	—	—	1	1
At 31 December 2023	(10)	14	12	16
Financing Cashflows	33	(4)	(6)	23
Non-cash items:				
Exchange realignment	1	(1)	—	—
New lease entered	—	—	9	9
At 31 December 2024	24	9	15	48

35. CAPITAL COMMITMENTS

As at 31 December 2022, 2023 and 2024, the Surface Solutions Business has capital commitments of €6 million, €9 million and nil respectively in relation to property, plant and equipment.

Subsequent to the date of demerger of the Surface Solutions Business and Merck KGaA, lease contracts will be executed in relation to buildings and facilities at the production site Gernsheim at a fixed duration of 15 years with a prolongation period of additional 5 years and a yearly rent of €5 million.

36. SUBSEQUENT EVENTS

No significant activities or events have taken place subsequent to 31 December 2024 that have a material impact on the Surface Solutions Business.

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma consolidated statement of profit or loss and other comprehensive income, unaudited pro forma consolidated statement of financial position and unaudited pro forma consolidated statement of cash flow of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared to illustrate the effect of the proposed acquisition of the worldwide global surface solution from Merck KGaA (the "Target Group")(the "Acquisition") might have affected the financial information of the Group.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2024 are prepared based on the audited consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2024 as extracted from the annual report of the Company for the year ended 31 December 2024 and the audited combined statement of profit or loss and other comprehensive income and audited combined statement of cash flows of the Target Group for the year ended 31 December 2024 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisition had been completed on 1 January 2024.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2024 is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2024 as extracted from the annual report of the Company for the year ended 31 December 2024 and the audited combined statement of financial position of the Target Group as at 31 December 2024 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisition had been completed on 31 December 2024.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Acquisition actually occurred on the dates indicated herein. Furthermore, the Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group, the financial information of the Target Group as set out in Appendix II and other financial information included elsewhere in this circular.

B. *UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP*

	The Group The year ended 31 December 2024	Target Group The year ended 31 December 2024	Pro forma adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(note 1)	*(note 2)*	*(note 4)*	*(note 5)*	
Turnover	1,648,763	3,127,560	—	—	4,776,323
Cost of sales	(764,105)	(2,108,380)	—	—	(2,872,485)
Sales related tax and auxiliary charges	(10,999)	—	—	—	(10,999)
Gross profit	873,659	1,019,180	—	—	1,892,839
Other income, other gains and losses	2,437	7,780	—	—	10,217
Reversal of impairment losses on trade, bills and other receivables, net	6,607	—	—	—	6,607
Selling expenses	(95,534)	(692,420)	—	—	(787,954)
Administrative and other operating expenses	(262,441)	(342,320)	(86,962)	(119,229)	(810,952)
Profit/(loss) from operations	524,728	(7,780)	(86,962)	(119,229)	310,757
Finance costs	(118,436)	(15,560)	(213,970)	—	(347,966)
Profit/(loss) before tax	406,292	(23,340)	(300,932)	(119,229)	(37,209)
Income tax (expense)/credit	(86,020)	15,560	20,262	—	(50,198)
Profit/(loss) for the year	320,272	(7,780)	(280,670)	(119,229)	(87,407)
Attributable to:					
Owners of the Company	242,176	(7,780)	(280,670)	(119,229)	(165,503)
Non-controlling interests	78,096	—	—	—	78,096
	320,272	(7,780)	(280,670)	(119,229)	(87,407)

	The Group For the year ended 31 December 2024	Target Group For the year ended 31 December 2024	Pro forma adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(note 1)	*(note 2)*	*(note 4)*	*(note 5)*	
Profit/(loss) for the year	320,272	(7,780)	(280,670)	(119,229)	(87,407)
Other comprehensive income:					
Items that will not be reclassified to profit or loss:					
Remeasurement losses on defined benefit pension plan	(4,822)	(23,340)	—	—	(28,162)
Income tax on item that will not be reclassified to profit or loss	1,007	—	—	—	1,007
	(3,815)	(23,340)	—	—	(27,155)
Item that may be reclassified to profit or loss:					
Exchange differences on translating foreign operations	(48,403)	15,560	—	—	(32,843)
Other comprehensive income for the year, net of tax	(52,218)	(7,780)	—	—	(59,998)
Total comprehensive income for the year	268,054	(15,560)	(280,670)	(119,229)	(147,405)
Attributable to:					
Owners of the company	220,006	(15,560)	(280,670)	(119,229)	(195,453)
Non-controlling interests	48,048	—	—	—	48,048
	268,054	(15,560)	(280,670)	(119,229)	(147,405)

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group As at 31 December 2024	Target Group As at 31 December 2024	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(note 1)	*(note 2)*	*(note 3)*	*(note 5)*	*(note 6)*	*(note 7)*	
ASSETS							
Non-current assets							
Property, plant and equipment	1,447,877	807,720	511,558	—	—	—	2,767,155
Right-of-use assets	144,324	106,680	—	—	—	—	251,004
Intangible assets	15,003	7,620	228,600	—	—	—	251,223
Prepayments for construction in progress	401,418	—	—	—	—	—	401,418
Deposits paid for acquisition of property, plant and equipment	70,000	—	—	—	—	—	70,000
Goodwill	94,160	1,234,440	(2,438)	—	—	—	1,326,162
Restricted deposits	2,050	—	—	—	—	—	2,050
Defined benefit assets, net	723	—	—	—	—	—	723
Deposits and other receivables	1,551	—	—	—	—	—	1,551
Escrow deposit	496,427	—	—	—	—	(496,427)	—
Long term time deposit	50,000	—	—	—	—	—	50,000
Deferred tax assets	8,367	160,020	—	—	—	—	168,387
	2,731,900	2,316,480	737,720	—	—	(496,427)	5,289,673
Current assets							
Inventories	310,264	1,927,860	—	—	—	—	2,238,124
Trade and other receivables	512,473	472,440	—	—	—	—	984,913
Deposits, prepayments and other receivables	57,420	144,780	—	—	—	—	202,200
Derivative component of convertible bond	733	—	—	—	—	—	733
Tax recoverable	317	—	—	—	—	—	317
Restricted bank deposits	30,000	—	—	—	—	—	30,000
Bank and cash balances	3,411,401	—	(4,192,539)	(119,229)	3,566,160	496,427	3,162,220
	4,322,608	2,545,080	(4,192,539)	(119,229)	3,566,160	496,427	6,618,507
Total assets	7,054,508	4,861,560	(3,454,819)	(119,229)	3,566,160	—	11,908,180
Capital and reserves							
Share capital	103,701	3,642,360	(3,642,360)	—	—	—	103,701
Reserves	3,272,796	(15,240)	15,240	(119,229)	—	—	3,153,567
Equity attributable to owners of the Company	3,376,497	3,627,120	(3,627,120)	(119,229)	—	—	3,257,268

	The Group As at 31 December 2024	Target Group As at 31 December 2024	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(note 1)	*(note 2)*	*(note 3)*	*(note 5)*	*(note 6)*	*(note 7)*	
Equity attributable to owners of the Company	3,376,497	3,627,120	(3,627,120)	(119,229)	—	—	3,257,268
Non-controlling interests	976,628	—	—	—	—	—	976,628
Total equity	4,353,125	3,627,120	(3,627,120)	(119,229)	—	—	4,233,896
Non-current liabilities							
Bank loans and other borrowings	1,126,800	—	—	—	3,520,440	—	4,647,240
Convertible bonds	333,715	—	—	—	—	—	333,715
Lease liabilities	5,103	83,820	—	—	—	—	88,923
Other payables	1,748	411,480	—	—	—	—	413,228
Provisions	—	7,620	—	—	—	—	7,620
Deferred revenue	7,487	—	—	—	—	—	7,487
Deferred tax liabilities	11,431	—	172,301	—	—	—	183,732
	1,486,284	502,920	172,301	—	3,520,440	—	5,681,945
Current liabilities							
Bank loans and other borrowings	602,212	—	—	—	45,720	—	647,932
Convertible bonds	349,574	—	—	—	—	—	349,574
Derivative component of convertible bonds	13,080	—	—	—	—	—	13,080
Lease liabilities	3,842	30,480	—	—	—	—	34,322
Trade payables	89,013	190,500	—	—	—	—	279,513
Accruals and other payables	127,885	175,260	—	—	—	—	303,145
Provisions	—	15,240	—	—	—	—	15,240
Refund liabilities	—	7,620	—	—	—	—	7,620
Contract liabilities	21	22,860	—	—	—	—	22,881
Loan from related parties	—	68,580	—	—	—	—	68,580
Amount due to related parties	—	198,120	—	—	—	—	198,120
Deferred revenue	8,770	—	—	—	—	—	8,770
Current tax liabilities	20,702	22,860	—	—	—	—	43,562
	1,215,099	731,520	—	—	45,720	—	1,992,339
Total liabilities	2,701,383	1,234,440	172,301	—	3,566,160	—	7,674,284
Total equity and liabilities	7,054,508	4,861,560	(3,454,819)	(119,229)	3,566,160	—	11,908,180

D. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	The Group	Target Group						
	For the year ended 31 December 2024	For the year ended 31 December 2024		Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	*(note 6)*	*(note 7)*	
CASH FLOWS FROM OPERATING ACTIVITIES								
Profit/(loss) from operations	406,292	(23,340)	—	(300,932)	(119,229)	—	—	(37,209)
Adjustments for:								
Finance cost	118,436	15,560	—	213,970	—	—	—	347,966
Interest income	(17,161)	—	—	—	—	—	—	(17,161)
Depreciation on:								
- Property, plant and equipment	76,783	101,140	—	41,242	—	—	—	219,165
- right-of-use assets	4,474	46,680	—	—	—	—	—	51,154
Amortisation of:								
- intangible assets	6,947	7,780	—	45,720	—	—	—	60,447
- deferred revenue	(3,297)	—						(3,297)
Reversal of impairment losses on trade, bills and other receivables, net	(6,607)	—	—	—	—	—	—	(6,607)
Allowance for inventories	2,968	—	—	—	—	—	—	2,968
Property, plant and equipment written off	3	—	—	—	—	—	—	3
Inventories written off	—	15,560	—	—	—	—	—	15,560
Gain on termination of a lease contract	(14)	—	—	—	—	—	—	(14)
Fair value gain on derivative component of convertible bonds	(3,643)	—	—	—	—	—	—	(3,643)
Share-based payment expenses	—	7,780	—	—	—	—	—	7,780
Operating profit before working capital changes	585,181	171,160	—	—	(119,229)	—	—	637,112
(Increase)/decrease in inventories	(87,081)	210,060	—	—	—	—	—	122,979
Increase in trade receivable and bills receivables	(147,244)	—	—	—	—	—	—	(147,244)
(Increase)/decrease in deposits, prepayments and other receivables	(29,584)	7,780	—	—	—	—	—	(21,804)
Increase in trade payables	56,351	23,340	—	—	—	—	—	79,691

	The Group	Target Group						
	For the year ended 31 December 2024	For the year ended 31 December 2024	Pro forma adjustments					The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	*(note 6)*	*(note 7)*	
Increase in defined benefit assets	(568)	—	—	—	—	—	—	(568)
Increase in provisions	—	(38,900)	—	—	—	—	—	(38,900)
Increase in deferred revenue	9,487	—	—	—	—	—	—	9,487
Increase in accruals and other payables	42,424	—	—	—	—	—	—	42,424
Decrease in contract liabilities	(145)	(15,560)	—	—	—	—	—	(15,705)
Cash generated from operating activities	428,821	357,880	—	—	(119,229)	—	—	667,472
Income tax (paid)/refund	(74,489)	15,560	—	—	—	—	—	(58,929)
Interest on lease liabilities	(323)	—	—	—	—	—	—	(323)
Interest paid	(81,921)	—	—	—	—	—	—	(81,921)
Net cash generated from operating activities	272,088	373,440	—	—	(119,229)	—	—	526,299
CASH FLOWS FROM INVESTING ACTIVITIES								
Acquisition of:								
- property, plant and equipment	(441,817)	(210,060)	—	—	—	—	—	(651,877)
- intangible assets	(69)	(7,780)	—	—	—	—	—	(7,849)
- leasehold land	(76,034)	—	—	—	—	—	—	(76,034)
- a subsidiary	—	—	(4,192,539)	—	—	—	—	(4,192,539)
Payment for:								
- construction in progress	(401,418)	—	—	—	—	—	—	(401,418)
- deposit for acquisition of property, plant and equipment	(70,000)	—	—	—	—	—	—	(70,000)
- escrow deposit	(496,427)	—	—	—	—	—	496,427	—
Withdrawal of restricted deposits	375	—	—	—	—	—	—	375
Placement of time deposits	(80,000)	—	—	—	—	—	—	(80,000)
Interest received	16,436	—	—	—	—	—	—	16,436
Net cash used in investing activities	(1,548,954)	(217,840)	(4,192,539)	—	—	—	496,427	(5,462,906)

	The Group	Target Group						The Enlarged Group
	For the year ended 31 December 2024	For the year ended 31 December 2024	Pro forma adjustments					
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*	*(note 6)*	*(note 7)*	
CASH FLOWS FROM FINANCING ACTIVITIES								
Net proceeds from bank loans and other borrowings raised	1,699,063	—	—	—	—	3,566,160	—	5,265,223
Repayment of bank loans and other borrowings	(272,200)	—	—	(213,970)	—	—	—	(486,170)
Principal elements of lease payments	(2,384)	(46,680)	—	—	—	—	—	(49,064)
Proceeds from:								
- issuance of convertible bonds, net	77,502	—	—	—	—	—	—	77,502
- related parties	—	256,740	—	—	—	—	—	256,740
Payment to loans from related parties	—	(31,120)	—	—	—	—	—	(31,120)
Withdrawals to Merck Group	—	(334,540)	—	—	—	—	—	(334,540)
Dividend paid to a non-controlling shareholder of a subsidiary	(74)	—	—	—	—	—	—	(74)
Net cash generated from/(used in) financing activities	1,501,907	(155,600)	—	(213,970)	—	3,566,160	—	4,698,497
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	225,041	—	(4,192,539)	(213,970)	(119,229)	3,566,160	496,427	(238,110)
Effect of foreign exchange rate changes	(17,116)	—	—	—	—	—	—	(17,116)
CASH AND CASH EQUIVALENTS AT 1 JANUARY 2024	3,203,476	—	—	—	—	—	—	3,203,476
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2024	3,411,401	—	(4,192,539)	(213,970)	(119,229)	3,566,160	496,427	2,948,250

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The audited consolidated statement of financial position of the Group as at 31 December 2024, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2024 are extracted from the annual report of the Group for the year ended 31 December 2024.

2. The audited combined statement of financial position of the Target Group as at 31 December 2024 and the audited combined statement of profit or loss and other comprehensive income and audited combined statement of cash flows for the year ended 31 December 2024 of the Target Group are extracted from the accountant's report as set out in Appendix II to this circular, where certain reclassification adjustments were made in order to conform with the presentation of the annual report of the Group.

   For the purpose of preparing the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the translation of EUR to RMB was made at a rate of EUR1 to RMB7.62. For the purpose of preparing the unaudited pro forma consolidated statement of profits or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group, the translation of EUR to RMB was made at a rate of EUR1 to RMB7.78.

3. The adjustment represents the Initial Cash Price (total consideration) calculation to meet the aggregate Debt Free/ Cash Free Price of EUR665,000,000 (equivalent to RMB5,067,300,000).

	EUR'000	*RMB'000*
Debt Free / Cash Free Price	665,000	5,067,300
Minus: Estimated External Debt	(15,000)	(114,300)
Minus: Estimated Total Employee Benefit Indemnification Amount	(55,698)	(424,419)
Minus: Estimated Inter-Company Non-Trading Payables	(35,000)	(266,700)
Plus: Estimated Loss Compensation Receivables	4,500	34,290
Plus: Aggregate amount of all Estimated Cash	130,000	990,600
Minus: Difference between the estimated working capital and the target working capital	(13,600)	(103,632)
Total consideration	680,202	5,183,139

The total consideration is payable to the Seller in the following manner:

— EUR468,000,000 (equivalent to RMB3,566,160,000) will be satisfied by the proceed of acquisition loan from Banks.

— The remaining balance of EUR212,202,000 (equivalent to RMB1,616,979,000) will be satisfied in cash.

Upon completion of the Acquisition, the identifiable assets acquired and liabilities assumed of the Target Group will be accounted for at their fair values under the acquisition method of accounting in accordance with IFRS 3 (Revised) Business Combinations.

For the preparation of the unaudited pro forma consolidated statement of assets and liabilities, and for illustrative purposes only, the adjustment represents the inclusion of unaudited pro forma fair value adjustments resulted from the allocation of the unaudited pro forma purchase price allocation to Target Group's identifiable assets acquired and liabilities assumed ("PPA Valuation"), as if the Acquisition had been taken place on 31 December 2024.

The unaudited pro forma purchase price allocation to the identifiable assets and liabilities of Target Group has been determined based on a valuation carried out by the management with the assistance from Avista Valuation Advisory Limited, an independent firm of professional valuers not connected with the Group or Target Group, with respect to the fair value of assets to be acquired and liabilities to be assumed as if the Acquisition had been taken place on 31 December 2024. For the purpose of preparing the unaudited pro forma consolidated statement of assets and liabilities, the directors of the Company assumed that apart from the assets and liabilities subject to the unaudited pro forma fair value adjustments stated in note (ii) and note (iii) below, the unaudited pro forma fair values of the remaining identifiable assets and liabilities of Target Group are approximate to their respective carrying amounts as of 31 December 2024.

	RMB'000
Total consideration[(a)]	5,183,139
Carrying amount of identifiable net assets acquired before fair value adjustments[(b)]	(2,392,680)
Unaudited pro forma fair value adjustments to property, plant and equipment[(c)]	(511,558)
Unaudited pro forma fair value adjustments to intangible assets[(d)]	(228,600)
Deferred tax liabilities arising from unaudited pro forma fair value adjustment to land use rights and other intangible assets[(e)]	172,301
Aggregate amount of all Estimated Cash[(f)]	(990,600)
Goodwill arising from the Acquisition[(g)]	1,232,002

(a) This amount represents total consideration for acquiring the Target Group.

(b) The identifiable net assets of the Target Group refers to the net assets of RMB3,627,120,000 recorded by the Target Group as at 31 December 2024, deducting the goodwill of RMB1,234,440,000 arisen from the past acquisition conducted by the Target Group.

(c) The unaudited pro forma fair value adjustment is to record the appreciation in the fair value of property, plant and equipment of approximately EUR67,000,000 (approximately RMB511,558,000) as of 31 December 2024.

(d) The unaudited pro forma fair value adjustments to intangible assets related to technology know-how.

The unaudited pro forma fair value of technology know-how of the Target Group is estimated at approximately EUR30,000,000 (approximately RMB228,600,000) based on relief-from royalty method.

(e) Deferred tax liabilities are recognised arising from the future taxable temporary differences in relation to the increase in fair value of the Target Group's property, plant and equipment and recognition of intangible assets upon completion of Acquisition.

(f) Prior to the Closing, the estimated operating cash in an amount of approximately EUR130,000,000 (equivalent to RMB990,600,000) will be injected by the Target Group.

	RMB'000
Net cash outflow arising on acquisition	
Cash consideration paid	5,183,139
Cash and cash equivalents acquired	(990,600)
	4,192,539

(g) Goodwill represents the excess of the cost of the Acquisition over the Group's share of the net fair value of the Target Group's identifiable assets and liabilities. The Consideration for the Acquisition will be satisfied by the Company's cash of EUR680,202,000 (approximately RMB5,183,139,000). For the purpose of compiling this unaudited pro forma statement of financial position, the audited net asset value of the Target Group as at 31 December 2024 is assumed to be the net fair value of the identifiable assets and liabilities.

Since the net fair value of the assets and liabilities of the Target Group as at the Completion Date of the Acquisition may differ from their fair values used in the preparing the unaudited pro forma financial information presented above, the actual goodwill arising from the Acquisition, if any, may be different from the estimated amount presented above.

In assessing impairment on goodwill arising from the Acquisition as of 31 December 2024, the Group has estimated the recoverable amount of the Target Group by applying a value-in-use calculation for the cash-generating units with goodwill as of 31 December 2024. The assessment indicates that no impairment of goodwill is necessary as of that date.

Since the identifiable net assets of the Target Group as at the Completion Date may be materially different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information, the actual amounts of the identifiable net assets (including intangible assets) to be recognised in connection with the Acquisition may be different from the amounts presented above and the differences may be significant.

4. The adjustment relates to additional depreciation of property, plant and equipment of RMB41,242,000 calculated with the estimated useful lives and the related deferred tax impact of RMB9,609,000 as a consequence of recognition of fair value adjustment of the property, plant and equipment.

   The adjustment also includes the additional amortization of the intangible asset of RMB45,720,000, calculated with useful lives of 5 years and the related deferred tax impact of RMB10,653,000 of recognition of fair value adjustment of the intangible assets.

   For the purpose of this Unaudited Pro Forma Financial Information, the Directors considered and assumed that there are no significant changes on the fair values of property, plant and equipment and intangible assets as set out in the valuation report prepared by AVISTA Valuation Advisory Limited between January 1, 2024 and December 31, 2024 and no separate valuation report as at January 1, 2024 was prepared. Had this report been prepared, the amounts of the additional depreciation, amortisation expenses and deferred tax liabilities for the compilation of the unaudited pro forma financial information of the Enlarged Group may be different from the amounts presented in this appendix.

   The adjustment also relates to additional finance cost of RMB213,969,600 for the year ended 31 December 2024, which refers to the amount of loan raised in Note 6 with the estimated interest rate.

   The above adjustments are assumed to be provided for the year as if the completion had been completed on 1 January 2024. This adjustment is expected to have an effect on the Enlarged Group's consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Enlarged Group.

5. The adjustment represents the recognition of estimated transaction expenses, such as legal and professional fees, of approximately RMB119,229,000 to be incurred that directly attributable to the Acquisition. The amount is subject to change upon the actual completion of the Acquisition.

6. The adjustments represent the loan raised for the Acquisition of EUR468,000,000 (approximately RMB3,566,160,000). The two transactions (i.e. the Acquisition and the raising of the loan) are an integral part of the whole transaction, and they are regarded as interlocking components of the transaction.

7. The adjustment represents the escrow deposit for the Acquisition. Assuming the escrow deposit will be transferred to bank and cash account as at the Completion date when the Acquisition is completed.

8. Save as set out above, no other adjustment has been made to the unaudited pro forma consolidated statement of financial position of the Enlarged Group to reflect any trading results or other transactions entered into by the Enlarged Group subsequent 31 December 2024. No other adjustment has been made to the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 1 January 2024.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.

RSM Hong Kong
Certified Public Accountants
RSM

29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

To the Board of Directors
Global New Material International Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Global New Material International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), and the worldwide global surface solution business from Merck KGaA (the "Target Group") (collectively the "Enlarged Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 December 2024, the pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2024, the pro forma consolidated statement of cash flows for the year ended 31 December 2024 and related notes as set out on pages III-1 to III-12 of the investment circular issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages III-1 to III-12 of the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the worldwide global surface solution from Merck KGaA on the Group's financial position as at 31 December 2024 as if the transaction had been taken place at 31 December 2024, and on the Group's financial performance and cash flows for the year ended 31 December 2024 as if the transaction had been taken place at 1 January 2024. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's consolidated financial statements as included in the annual report for the year ended 31 December 2024, on which an audit report has been published.

Directors' Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities The Stock exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 1 January 2024 and 31 December 2024 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
RSM Hong Kong
Certified Public Accountants
Hong Kong
25 June 2025

Set out below is the management discussion and analysis of the Target Companies for the three financial years ended 31 December 2022, 2023, and 2024 (the "**Reporting Period**"). The following financial information is based on the financial information of the Target Companies as set out in Appendix II to this circular.

OVERVIEW

The Target Companies provide surface solutions and are a leader in pearlescent pigments serving mainly customers active in the automotive, cosmetics and industrial applications. Apart from pearlescent pigments, the Target Companies' product portfolio also comprises cosmetic actives (such as insect repellent and tanning products) and other industrial functionals and raw materials (such as high-performance additives for protective and optical coatings or functional pigments for anti-counterfeiting applications). For further details of the Target Companies, please refer to the section headed *"Information on the Target Companies"* in the Letter from the Board.

FACTORS AFFECTING RESULTS OF OPERATIONS

The following factors have affected, and are expected to continue to affect, the business, results of operations and financial condition of the Target Companies:

- demand for products in the Target Companies' three main sectors, namely automotive coatings, industrial products and cosmetics;
- expansion of the Target Companies' business in existing and new markets, including in the Asia-Pacific region;
- fluctuations in input costs, primarily labour, materials and energy costs; and
- prudent inventory management and optimisation.

RESULTS OF OPERATIONS

The following table sets forth the Target Companies' combined statements of profit or loss and other comprehensive income, which have been extracted from the accountant's report in Appendix II to this circular. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

	Year ended 31 December		
	2022	**2023**	**2024**
	EUR millions		
Revenue	433	405	402
Cost of sales	(248)	(247)	(271)
Gross profit	185	158	131
Other operating income	3	2	1
Marketing and selling expenses	(102)	(90)	(89)
Administration expenses	(25)	(20)	(20)
Research and development expenses	(19)	(16)	(15)
Other operating expenses	(9)	(14)	(9)
Finance costs	(1)	(2)	(2)
Profit (loss) before tax	32	18	(3)
Income tax (expense) credit	(4)	0	2
Profit (loss) for the year	**28**	**18**	**(1)**
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit obligations	(51)	(2)	(3)
Items that may be reclassified to profit or loss			
Exchange differences arising on translation of foreign operations	(3)	(12)	2
Other comprehensive expense for the year	(54)	(14)	(1)
Total comprehensive (expense) income for the year	**(26)**	**4**	**(2)**

COMPARISON OF RESULTS OF OPERATIONS

Financial year ended 31 December 2024 compared to financial year ended 31 December 2023

Revenue

The Target Companies recorded revenue of Euro 402 million and Euro 405 million for the financial years ended 31 December 2024 and 2023. The decline in net revenue was primarily due to the currency effects of strengthening in the Euro in the financial year ended 31 December 2024. Sales in the coating sector increased on account of a recovery in sales in China, but this increase was partially offset by currency effects. Sales in the industrial products sector increased on account of improved sales of pearlescent pigments, mainly in Asia. Cosmetics sales declined, primarily because of reduced global demand for ultraviolet filters.

Cost of Sales

The Target Companies recorded cost of sales of Euro 271 million and Euro 247 million for the financial years ended 31 December 2024 and 2023. The increase in cost of sales was on account of inflationary pressures in the financial year ended 31 December 2024 which resulted in an increase in labour, material and energy costs. In addition, sales of inventory undertaken to optimise inventory levels resulted in lower capacity utilisation and a consequent decrease in production volumes.

Marketing and Selling Expenses

The Target Companies recorded marketing and selling expenses of Euro 89 million and Euro 90 million for the financial years ended 31 December 2024 and 2023. There was no significant change in marketing and selling expenses as costs for internal sales services, logistics, sales force and other marketing and selling expenses remained stable.

Administration Expenses

The Target Companies recorded administration expenses of Euro 20 million and Euro 20 million for the financial years ended 31 December 2024 and 2023. There was no significant change in administration costs between the periods.

Research and Development Expenses

The Target Companies recorded research and development expenses of Euro 15 million and Euro 16 million for the financial years ended 31 December 2024 and 2023. There was no significant change in research and development expenses between the periods.

Profit (Loss) for the Year

As a result of the foregoing, the Target Companies recorded profit for the year of Euro (1) million and Euro 18 million for the financial years ended 31 December 2024 and 2023. The Target Companies recorded total comprehensive expense for the year of Euro 2 million for the financial year ended 31 December 2024 and total comprehensive income for the year of Euro 4 million for the financial year ended 31 December 2023.

Financial year ended 31 December 2023 compared to financial year ended 31 December 2022

Revenue

The Target Companies recorded revenue of Euro 405 million and Euro 433 million for the financial years ended 31 December 2023 and 2022. Of the total Euro 29 million decrease in net revenue between the financial year ended 31 December 2022 and 2023, Euro 13 million was attributable to an unfavourable foreign exchange development in the Asia Pacific region and Euro 16 million was the result of lower volumes primarily in the industrials sector, partially offset by improvements in cosmetics driven by fillers, and an opportunity involving a specialty pigment product.

Cost of Sales

The Target Companies recorded cost of sales of Euro 247 million and Euro 248 million for the financial years ended 31 December 2023 and 2022. Cost of sales primarily follows sales volumes, which decreased in 2023, offset by the delayed materialization of the significant increases in material and energy cost caused by the Russia/Ukraine conflict and the resulting economic slowdown.

Marketing and Selling Expenses

The Target Companies recorded marketing and selling expenses of Euro 90 million and Euro 102 million for the financial years ended 31 December 2023 and 2022. The decrease in marketing and selling expenses was primarily due to a reduction in logistics expenses. The lower logistics costs in 2023 were mainly due to lower shipment volumes, declining freight rates and lower use of air transportation, especially in Japan.

Administration Expenses

The Target Companies recorded administration expenses of Euro 20 million and Euro 25 million for the financial years ended 31 December 2023 and 2022. These expenses mainly represent costs allocated by the parent group. The decrease in 2023 was primarily driven by lower cost allocation, due in part to efficiency programs at the parent group level.

Research and Development Expenses

The Target Companies recorded research and development expenses of Euro 16 million and Euro 19 million for the financial years ended 31 December 2023 and 2022. The decrease in research and development expenses were primarily due to headcount reductions as part of a reorganisation program and reduced research and development projects.

Profit (Loss) for the Year

As a result of the foregoing, the Target Companies recorded profit for the year of Euro 18 million and Euro 28 million for the financial years ended 31 December 2023 and 2022. The Target Companies recorded total comprehensive income for the year of Euro 4 million for the financial year ended 31 December 2023 and total comprehensive expense for the year of Euro 26 million for the financial year ended 31 December 2022.

ADJUSTED EBITDA AND ADJUSTED EBIT

EBITDA is defined as profit or loss before depreciation and amortization, finance income, interest expenses and other finance costs and tax. Therefore, EBITDA corresponds to operating result (EBIT) adjusted for depreciation, amortization, impairment losses, and reversal of impairment losses. The definition and calculation of EBITDA is based on the definition and calculation of EBITDA as set out in the accountant's report in Appendix II.

Adjusted EBITDA is defined as profit or loss before depreciation and amortization, finance income, interest expenses, other finance costs and tax and before corporate costs recharged by the parent group to the Target Companies. These corporate costs include costs for general corporate services relating to information technology, mergers and acquisitions, legal and compliance, comptroller, treasury, communication, human resources and other central functions. In the financial years ended 31 December 2024, 2023 and 2022, the Target Companies received general corporate services in the amount of Euro 37 million, Euro 40 million and Euro 48 million from the parent group.

The Target Companies recorded adjusted EBITDA of Euro 56 million and Euro 83 million for the financial years ended 31 December 2024 and 2023. The decrease in adjusted EBITDA in the financial year ended 31 December 2024 was primarily on account of an optimisation of inventory levels which resulted in lower capacity utilisation and a consequent decrease in production volumes, along with inflationary pressures which resulted in higher expenses for labour, materials, and energy.

The Target Companies recorded adjusted EBITDA of Euro 83 million and Euro 100 million for the financial years ended 31 December 2023 and 2022. The decrease in adjusted EBITDA in the financial year ended 31 December 2023 was primarily on account of reduced sales volumes and unfavourable foreign exchange movements in the Asia-Pacific region, as well as increased costs of raw material and energy caused by the war in Ukraine and the resulting economic slowdown.

The Target Companies recorded adjusted EBIT of Euro 36 million and Euro 60 million for the financial years ended 31 December 2024 and 2023. The decrease in adjusted EBIT in the financial year ended 31 December 2024 was primarily due to an optimisation of inventory levels which resulted in lower capacity utilisation and a consequent decrease in production volumes along with inflationary pressures, leading to higher expenses for labour, materials, and energy.

The Target Companies recorded adjusted EBIT of Euro 60 million and Euro 81 million for the financial years ended 31 December 2023 and 2022. The decrease in adjusted EBIT in the year ended 31 December 2023 was primarily due to reduced sales volumes, an unfavorable foreign exchange development in the Asia Pacific region and increasing costs of raw material and energy caused by the war in Ukraine and the resulting economic slowdown.

EBITDA, EBIT, adjusted EBITDA and adjusted EBIT are non-GAAP financial measures and should not be considered in isolation or construed as an alternative to cash flows, profit/ (loss) for the years/period or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities derived in accordance with any generally accepted accounting principles. We compute and disclose such non-GAAP financial measures as we consider such information to be useful measures of our business and financial performance, and because such measures are frequently used by securities analysts, investors and others to evaluate the operational performance of companies such as us. These non-GAAP financial measures and other statistical information may not be computed on the basis of any standard methodology that is applicable across the industry and, therefore, may not be comparable to financial measures and statistical information of similar nomenclature that may be computed and presented by other companies.

A reconciliation of adjusted EBITDA and adjusted EBIT of the Target Companies to profit or loss before income tax is shown in the table below:

	Year ended 31 December		
	2024	**2023**	**2022**
		EUR millions	
Adjusted EBITDA	**56**	**83**	**101**
Corporate cost allocation	(37)	(40)	(48)
EBITDA	**19**	**43**	**53**
Depreciation and amortization	(20)	(23)	(20)
Impairment losses and reversals	0	0	0
Operating result (EBIT)	**(1)**	**20**	**33**
Finance income	0	0	0
Finance costs	(2)	(2)	(1)
Profit before income tax	**(3)**	**18**	**32**

A reconciliation of adjusted EBIT of the Target Companies to profit or loss before income tax is shown in the table below:

	Year ended 31 December		
	2024	**2023**	**2022**
	EUR millions		
Adjusted EBIT	**36**	**60**	**81**
Corporate cost allocation	(37)	(40)	(48)
Operating result (EBIT)	**(1)**	**20**	**33**
Finance income	0	0	0
Finance costs	(2)	(2)	(1)
Profit before income tax	**(3)**	**18**	**32**

STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from the Target Companies' combined statements of financial position as at the dates indicated, which have been extracted from the accountant's report in Appendix II to this circular.

	As at 31 December		
	2022	**2023**	**2024**
	EUR millions		
Non-current assets			
Property, plant and equipment	98	104	106
Right-of-use assets	16	10	14
Goodwill	162	162	162
Other intangible assets	3	2	1
Prepayments	1	—	—
Deferred tax assets	16	21	21
	296	299	304
Current assets			
Inventories	259	281	253
Trade and other receivables and prepayments	106	81	81
Amounts due from related parties	23	15	—
	388	377	334

	As at 31 December		
	2022	2023	2024
	EUR millions		
Current liabilities			
Trade and other payables	77	48	48
Provisions	2	3	2
Refund liabilities	1	1	1
Contract liabilities	3	4	3
Loans from related parties	16	14	9
Amounts due to related parties	3	7	26
Tax payable	7	2	3
Lease liabilities	5	5	4
	114	84	96
Net current assets	274	293	238
Total assets less current liabilities	570	592	542
Non-current liabilities			
Other payables	47	51	54
Provisions	2	2	1
Lease liabilities	12	7	11
	61	60	66
Net assets	509	532	476
Equity			
Invested equity attributable to Merck Group	496	533	478
Reserves	13	(1)	(2)
Total equity	509	532	476

ANALYSIS OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, Plant and Equipment

Property, plant and equipment ("**PPE**") owned by the Target Companies mainly comprises its administrative facilities and plants and production facilities for manufacturing and research and development. PPE is valued at amortized cost. The depreciation rates are calculated based on the estimates of the economic useful life of the assets and are applied on a straight-line basis.

The Target Companies recorded PPE of Euro 106 million, Euro 104 million, and Euro 98 million as of 31 December 2024, 2023, and 2022. The increase in PPE from 31 December 2023 to 31 December 2024 was primarily due to an increase in technical equipment of Euro 14 million (driven by additions from assets under construction and other additions) as well as an increase in other fixed assets of Euro 1 million, partially offset by a decrease in assets under construction of Euro 13 million (primarily due to the completion of assets under construction and the transfer to technical equipment). The increase in PPE from 31 December 2022 to 31 December 2023 was primarily driven by additions to assets under construction of Euro 15 million, partially offset by a decrease in buildings of Euro 3 million and technical equipment of Euro 6 million (driven by depreciation during the year).

Goodwill

Goodwill held by the Target Companies is primarily comprised of purchased intangible assets and internally generated intangible assets. Intangible assets acquired in business combinations are recognised at fair value on the acquisition date. For internally generated intangible assets, development expenses are capitalized when the recognition criteria are met and verified. Both purchased and internally generated intangible assets with finite useful lives are amortized using the straight-line method over their useful lives. The useful lives of customer relationships, brand names and trademarks as well as marketing authorizations, acquired patents, licenses and similar rights, and software are typically between three and 24 years. In determining these useful lives, the Target Companies consider factors including the typical product life cycles for each asset and publicly available information about the estimated useful lives of similar assets.

The Target Companies recorded goodwill of Euro 162 million, Euro 162 million, and Euro 162 million as of 31 December 2024, 2023, and 2022.

Inventories

Inventories held by the Target Companies are primarily comprised of finished goods, unfinished products and raw materials and supplies.

The Target Companies recorded inventories of Euro 253 million, Euro 281 million, and Euro 259 million as of 31 December 2024, 2023, and 2022. The decrease of Euro 28 million in inventories from 31 December 2023 to 31 December 2024 was primarily due to the efforts to optimize the inventory structure and overall inventory levels, particularly for the pigments portfolio, by aligning production with demand and adjusting raw material purchases, alongside divesting discontinued smaller product lines in the industrial functionals division. The increase in inventories of Euro 22 million from 31 December 2022 to 31 December 2023 resulted mostly from price effects impacting raw materials and finished goods. Raw materials increased significantly on account of higher purchase prices, driven by inflation, supply chain constraints and the Russia/Ukraine conflict. The production cost for finished goods increased on account of inflationary pressures on labour and energy costs, and the rise in raw material costs.

Trade and Other Receivables and Prepayments

Trade and other receivables and prepayments held by the Target Companies mainly represent invoices to customers that are normally payable within approximately 60 days, on average.

The Target Companies recorded trade and other receivables and prepayments of Euro 81 million, Euro 81 million, and Euro 106 million as of 31 December 2024, 2023, and 2022. There was no significant change in trade and other receivables from 31 December 2023 to 31 December 2024, consistent with sales volumes. The decrease in trade and other receivables and prepayments from 31 December 2022 to 31 December 2023 was primarily due to a decrease in sales.

SEGMENTAL INFORMATION

During the Reporting Period, the Target Companies had only one reportable segment. As such, no segmental information is presented in the Target Companies' financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

During the Reporting Period, the Target Companies mainly financed their operations from cash from operating activities in addition to financing from the treasury management of Merck Group. The following table sets forth a selected summary of the Target Companies' statement of cash flows for the period indicated.

	Years ended 31 December		
	2022	**2023**	**2024**
	EUR millions		
OPERATING ACTIVITIES			
Profit (loss) before tax	32	18	(3)
Finance costs	1	2	2
Depreciation of property, plant and equipment	13	17	13
Depreciation of right-of-use assets	6	5	6
Amortisation of other intangible assets	1	1	1
Write-off of inventories	2	20	2
Shared-based payment expenses	1	—	1
Operating cashflows before movements in working capital	56	63	22
(Increase) decrease in inventories	(27)	(47)	27
Decrease in trade and other receivables and prepayments	8	17	1
(Decrease) increase in trade and other payables	(14)	(34)	3
(Decrease) increase in provisions	(53)	5	(5)
Increase (decrease) in contract liabilities	1	1	(2)
Increase (decrease) in amounts due to related parties	3	(1)	—
Cash (used in) from operations	(26)	4	46
Income tax refund (paid)	14	(5)	2
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(12)	(1)	48

	Years ended 31 December		
	2022	2023	2024
	EUR millions		
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(23)	(28)	(27)
Purchase of other intangible assets	—	—	(1)
Proceeds from disposal of property, plant and equipment	2	1	—
NET CASH USED IN INVESTING ACTIVITIES	(21)	(27)	(28)
FINANCING ACTIVITIES			
Repayment of lease liabilities	(4)	(6)	(6)
Proceeds from (repayment to) loans from related parties	16	(1)	(4)
Proceeds from (repayment to) related parties	(10)	8	33
Contributions from (withdrawals to) the Seller Group	31	27	(43)
NET CASH FROM (USED) IN FINANCING ACTIVITIES	33	28	(20)
NET CHANGES IN CASH AND CASH EQUIVALENTS	—	—	—
CASH AND CASH EQUIVALENTS AT BEGINNING AND END OF THE YEAR	—	—	—

Operating activities

Net cash from operating activities for the financial year ended 31 December 2024 amounted to Euro 48 million, mainly attributable to operating cash flows before movements in working capital of Euro 22 million, adjusted for non-cash items, primarily including depreciation of PPE of Euro 13 million, depreciation of right-of-use assets of Euro 6 million, amortisation of other intangible assets of Euro 1 million and write-off of inventories of Euro 2 million. Movements in working capital primarily reflected a decrease in inventories of Euro 27 million, partially offset by an increase in trade and other payables of Euro 3 million.

Net cash used in operating activities for the financial year ended 31 December 2023 amounted to Euro 1 million, mainly attributable to operating cash flows before movements in working capital of Euro 63 million, adjusted for non-cash items, primarily including depreciation of PPE of Euro 17 million, depreciation of right-of-use assets of Euro 5 million, amortisation of other intangible assets of Euro 1 million and write-off of inventories of Euro 20 million. Movements in working capital primarily reflected an increase in inventories of Euro 47 million, partially offset by a decrease in trade and other receivables and prepayments of Euro 17 million.

Net cash used in operating activities for the financial year ended 31 December 2022 amounted to Euro 12 million, mainly attributable to operating cash flows before movements in working capital of Euro 56 million, adjusted for non-cash items, primarily including depreciation of PPE of Euro 13 million, depreciation of right-of-use assets of Euro 6 million, amortisation of other intangible assets of Euro 1 million. Movements in working capital primarily reflected a decrease in provisions of Euro 53 million, partially offset by an decrease in trade and other receivables, deposits and prepayments of Euro 8 million.

Investing activities

Net cash used in investing activities in the financial year ended 31 December 2024 amounted to Euro (28) million, primarily attributable to the purchase of PPE, in the ordinary course of business, of Euro 27 million.

Net cash used in investing activities in the financial year ended 31 December 2023 amounted to Euro (27) million, primarily attributable to the purchase of PPE, in the ordinary course of business, of Euro 28 million and proceeds from the disposal of PPE of Euro 1 million.

Net cash used in investing activities in the financial year ended 31 December 2022 amounted to Euro (21) million, primarily attributable to the purchase of PPE, in the ordinary course of business, of Euro 23 million and proceeds from the disposal of PPE of Euro 2 million.

Financing activities

Net cash used in financing activities in the financial year ended 31 December 2024 amounted to Euro 20 million, primarily attributable to withdrawals to the Seller Group of Euro 43 million, the repayment of lease liabilities of Euro 6 million and the repayment of loans to related parties of Euro 4 million, partially offset by proceeds from related parties of Euro 33 million.

Net cash from financing activities in the financial year ended 31 December 2023 amounted to Euro 28 million, primarily attributable to contributions from the Seller Group of Euro 27 million and proceeds from related parties of Euro 8 million, partially offset by the repayment of lease liabilities of Euro 6 million and the repayment of loans to related parties of Euro 1 million.

Net cash from financing activities for the financial year ended 31 December 2022 amounted to Euro 33 million, primarily attributable to contributions from the Seller Group of Euro 31 million and proceeds from loans to related parties of Euro 16 million, partially offset by the repayment of lease liabilities of Euro 4 million and the repayment to related parties of Euro 10 million.

Borrowings

As of 31 December 2022, 2023 and 2024, the Target Companies had borrowings of Euro 19 million, Euro 21 million and Euro 35 million, mainly consisting of loans from related parties and amounts due to related parties. Set forth below are the maturity details of the Target Companies' borrowings for the dates indicated.

	As of 31 December		
	2022	2023	2024
	EUR millions		
Payable within one year	19	21	35
Repayable within a period of more than one year but not exceeding two years	—	—	—
Repayable within a period of more than two years but not exceeding five years	—	—	—
Payable more than five years	—	—	—
Total	**19**	**21**	**35**

All of the related party borrowings of the Target Companies during the Reporting Period bore variable interest rates. As of 31 December 2024, all of the Target Companies' borrowings were denominated in the functional currency of the relevant Target Company entity. As of 31 December 2024, all of the Target Companies' borrowings were provided without any covenants or security.

Other than the borrowings discussed above, as of 30 April 2025, being the latest practicable date for the purpose of ascertaining the indebtedness of the Target Companies prior to the printing of this circular, the Target Companies did not have other borrowings or indebtedness in the nature of borrowings.

Gearing ratio

As of 31 December 2022, 2023 and 2024, the gearing ratio (being total borrowings divided by total equity) of the Target Companies was approximately 7%, 3%, and 4%.

Funding and Treasury Policy

The Target Companies have adopted a prudent financial management approach towards its treasury policy, with the objective of efficiently managing financial risks within the Target Companies. The Target Companies closely monitor their liquidity position to ensure that the liquidity structure of their assets, liabilities, and other commitments can meet their funding requirements.

Significant Investments

The Target Companies made no significant investments in the years ended 31 December 2022, 2023 and 2024.

Contingent Liabilities and Capital Commitments

The Target Companies did not have any contingent liabilities as of 31 December 2022, 2023 and 2024. The Target Companies had capital commitments as of 31 December 2022 and 31 December 2023 of Euro 6 million and Euro 9 million, respectively, primarily due to plant upgrades and cosmetic changes with respect to projects in the United States. The Target Companies did not have any capital commitments as of 31 December 2024.

Pledge of Assets

The Target Companies did not have any assets which were pledged to secure bank loans as of 31 December 2022, 2023 and 2024.

FOREIGN CURRENCY MANAGEMENT

Since the Target Companies have a global footprint with operations in various locations such as Germany, the United States, Japan, Italy and France, subsidiaries of the Target Companies have different functional currencies. The presentation currency of the Target Companies is the Euro. As such, the Target Companies are subject to foreign exchange exposure because of currency translation.

Set forth below are the details of the Target Companies' cash and intra-group foreign currency denominated trade receivables, cash, trade payables and bank loans.

Assets:

	Year ended 31 December		
	2022	**2023**	**2024**
	EUR millions		
USD	12	10	11
RMB	50	40	13
JPY	8	7	4
INR	2	4	4
MXN	3	2	3

Liabilities:

	Year ended 31 December		
	2022	**2023**	**2024**
	EUR millions		
USD	13	10	7
RMB	1	2	8
JPY	26	24	16
INR	2	1	1
MXN	2	2	1

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions or disposals of subsidiaries of the Target Companies during the Reporting Period.

DEBT SECURITIES

As of 30 April 2025, being the latest practicable date for the purpose of ascertaining the indebtedness of the Target Companies prior to the printing of this circular, the Target Companies did not have any debt securities issued and outstanding or authorised or otherwise created but unissued.

EMPLOYEES AND REMUNERATION POLICIES

As of 31 December 2024, the Target Companies had 1,203 employees. In the financial year ended 31 December 2022, 2023 and 2024, total staff costs of the Target Companies amounted to Euro 132 million, Euro 114 million and Euro 116 million. The Target Companies provide remuneration which meets or exceeds the local regulation based on the requirements of the respective position, performance and external benchmarks which are continuously updated based on prevailing local conditions. In addition to a competitive salary, the Target Companies offer additional and social benefits through benefits programs, such as defined benefit plans, health insurance and other employee insurance as well as other local offers, such as bicycle leasing or discount programs.

FINANCIAL AND TRADING PROSPECTS OF THE TARGET COMPANIES

Sales of cosmetics and automative coatings contributed the largest portion of net sales in the financial year ended 31 December 2024 and the Target Companies expect the net sales contribution from cosmetics and automotive coatings to account for an increasing portion of the Target Companies' net sales going forward. The Target Companies expect moderate volume growth during 2025 with relatively higher growth in the Asia-Pacific and European regions.

Set out below are the management discussion and analysis of the Group for the three years ended 31 December 2022, 2023 and 2024, as extracted from the relevant sections in the annual reports of the Company for the three years ended 31 December 2022, 2023 and 2024. Such extracted information were prepared prior to the date of this circular and represents the opinions and beliefs made by the then Directors at such time when the relevant reports were issued. Unless the context requires otherwise, the capitalised terms used in this appendix shall have the same meanings as those defined in the abovementioned annual reports of the Company.

(a) Management discussion and analysis of the Group for FY2024

BUSINESS REVIEW

BUSINESS DEVELOPMENT REVIEW

2024 was an important year for the Company to continue its deep engagement, deepen integration, and strengthen its leading position in the global surface performance materials field. We firmly implemented the development strategy of "Endogenous Development and Outward Expansion" established by the board of directors, continued to focus on the core business of pearlescent materials, and took historic steps in international mergers and acquisitions as well as collaborative integration. In particular, in 2024, the Company successfully signed the Agreement. This significant milestone not only remarkably enhanced our global market competitiveness but also further consolidated our leading position in the global surface performance materials industry.

In terms of operation and management, we have further enhanced our market competitiveness by means of optimizing the product structure, boosting production capacity, increasing research and development ("**R&D**") investment, and strengthening global market expansion. We are steadily advancing towards the leading position in the global surface performance materials industry. The Company has been awarded numerous industry honors, solidified its market position in the global surface performance materials industry, and further enhanced its brand value and industry influence.

For the year ended 31 December 2024 (the "**FY2024**"), the Group's revenue amounted to approximately RMB1,648.8 million, representing a year-on-year increase of approximately 55.0%, and net profit amounted to approximately RMB320.3 million, representing a year-on-year increase of approximately 50.2%.

EBITDA for the FY2024 amounted to approximately RMB612.9 million, representing an increase of approximately 65.9% as compared to approximately RMB369.6 million for the year ended 31 December 2023 (the "**FY2023**").

In the FY2024, the pace of "progression" of the Group was firm and strong.

In 2024, the Group achieved significant growth in revenue and net profit, mainly due to the following factors:

1. The Company's brand effect and bargaining power in the high - end market, contributing to the improvement of the gross profit margin.

2. The business integration after the acquisition of CQV Co., Ltd. ("**CQV**") in the Republic of Korea ("**Korea**") entered a deep-synergy stage. CQV and Guangxi Chesir Pearl Material Co., Ltd. ("**Chesir Pearl**") achieved more efficient resource sharing in R&D, production, supply chain, and market channels, significantly releasing the synergy effect.

3. With the industrial upgrading and the increased proportion of high-value-added product sales, a series of high-end synthetic mica pearlescent pigments and functional surface materials launched by the Group have been highly recognized by the market, driving the growth of overall profits.

4. In terms of financial optimization, the Group effectively controlled costs through refined management, and at the same time, accelerated the capital turnover and improved the capital utilization efficiency.

In 2024, the Group continued to optimize the industrial layout, accelerate the construction of major projects, and consolidate the global supply chain system. The Phase 2 production base of Chesir Pearl with an annual production capacity of 30,000 tons of pearlescent materials was put into operation in February 2024, further enhancing the Group's product supply capacity. The project of the Asia-Pacific regional headquarters and the production base of 100,000 tons of artificial synthetic mica in Tonglu, Hangzhou is being steadily advanced and is expected to be initially completed by the end of 2025.

In 2024, the Group continued to increase its investment in technology research and development, driving product upgrades and technological breakthroughs to meet the market demand for high-performance and environmentally friendly pearlescent materials. The team of Chesir Pearl and the team of CQV in Korea achieved deep synergy in aspects such as market channels, product research and development, and supply chain management. The business performance has been steadily improved, and the synergy effect is remarkable. This not only enhances the Company's global competitiveness but also further consolidates our leading position in the international market.

Through unremitting independent research and development efforts, the Group has actively promoted product iteration and innovative upgrading, and the proportion of mid-to-high-end products has been further increased. Our innovative products and technologies have won widespread attention and recognition from the industry at multiple industry exhibitions. At the 2024 "Xuan Cai Huan Xin (絢彩煥新)" New Product Launch Conference, we launched five new innovative product series and ten annual popular colors. These new products not only enrich our product line but also set off a new trend within the industry, leading the new market trends.

As at 31 December 2024, the total number of pearlescent pigment products offered by Chesir Pearl of the Group had reached 1,179, which comprise:

(a) 592 natural mica-based pearlescent pigment products under 17 series of different colours, textures and gloss levels;

(b) 472 synthetic mica-based pearlescent pigment products under 15 series of different colours, textures and gloss levels;

(c) 94 glass flake-based pearlescent pigment products under 5 series of different transparency, refractive index and flake structure; and

(d) 21 silicon oxide-based pearlescent pigment products under 1 series.

As at 31 December 2024, the total number of pearlescent pigment products offered by CQV of the Group had reached 993, which comprise:

(1) 507 synthetic mica-based products;

(2) 159 natural mica-based products;

(3) 140 glass flake-based products;

(4) 102 aluminium oxide-based products;

(5) 3 PMSQ and silicon dioxide-based products;

(6) 43 hollow flake titanium oxide-based products;

(7) 33 aluminium silver paste metal pigment products; and

(8) 6 coloured aluminium metal pigment products.

For the FY2024, we successfully obtained 7 new authorised patents and registered 3 new trademarks.

As at 31 December 2024, we owned a total of 156 patents, 76 registered trademarks and 4 software copyrights.

In 2024, the Group made significant progress in its globalization strategy. Firstly, the integration of market channels with CQV in South Korea has shown remarkable results. The two sides jointly expanded into the European, American, and Southeast Asian markets, further increasing the Company's market share in the global high-end market and emerging markets. Secondly, the Group accelerated the introduction of international talents. It actively recruited high-end talents from the global surface materials industry by building up a talent reserve. Thirdly, the Group established closer strategic cooperative relationships with the world's top raw material suppliers to ensure the stability of the supply of key raw materials.

In 2024, the Group continued to make progress in brand building, social responsibility, and sustainable development, further consolidating its leading position in the industry. Global New Material International was awarded the "Best Case Award for Social Responsibility" at the 1st Sino-European Corporate ESG Best Practice Conference in Frankfurt, the "ESG Excellence Award" at the 2024 Hong Kong Corporate Governance and Environmental, Social, and Governance (ESG) Excellence Awards Ceremony, and the "Innovation and Sustainable Development Award" at the 7th Finance Associated Press (財聯社) Global Investment Annual Conference 2024.

REVENUE

The Group is principally engaged in the business of the production and sales of pearlescent pigment products and functional mica and related products in the People's Republic of China (the "**PRC**") and Korea. The assets of the Group are substantially located in the PRC and Korea. The Group's reportable segments are strategic business units managed by separate management as each segment requires different marketing strategies. The Group offers to its customers a range of pearlescent pigment products, namely (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; (d) silicon oxide-based pearlescent pigment products; (e) aluminium oxide-based pearlescent pigment products; and (f) aluminium-based pearlescent products.

The revenue of the Group is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties.

The table below sets forth an analysis of the Group's revenue by reportable segments:

	Year ended 31 December			
	2024		2023	
	Revenue	Proportion of Revenue	Revenue	Proportion of revenue
	RMB'000	*%*	*RMB'000*	*%*
PRC Business Operation	1,332,170	80.8	960,949	90.3
Korea Business Operation	316,593	19.2	103,106	9.7
Total	1,648,763	100.0	1,064,055	100.0

The total revenue of the Group increased from approximately RMB1,064.1 million for the FY2023 to approximately RMB1,648.8 million for the FY2024, representing a year-on-year increase of approximately 55.0%. The revenue generated from the PRC Business Operation, which accounted for approximately 80.8% (FY2023: approximately 90.3%) of the total revenue of the Group for the FY2024, increased by approximately 38.6% from approximately RMB960.9 million for the FY2023 to approximately RMB1,332.2 million for the FY2024. Such increase was mainly due to the increase in sales in natural mica-based and synthetic mica-based pearlescent pigment products. The revenue generated from the Korea Business Operation amounted to approximately RMB316.6 million for the FY2024 (FY2023: approximately RMB103.1 million), accounting for approximately 19.2% of the total revenue of the Group for the FY2024 (FY2023: approximately 9.7%).

The table below sets forth an analysis of the Group's revenue by major products:

	Year ended 31 December			
	2024		2023	
	RMB'000	*%*	*RMB'000*	*%*
Pearlescent pigment products				
— Natural mica-based	712,380	43.2	399,762	37.6
— Synthetic mica-based	518,232	31.4	438,171	41.2
— Glass flakes-based	142,238	8.6	79,419	7.5
— Silicon oxide-based	42,290	2.6	11,395	1.0
— Aluminium oxide-based	104,931	6.4	33,060	3.1
— Aluminium-based	8,192	0.5	2,196	0.2
	1,528,263	92.7	964,003	90.6
Functional mica filler (1)	92,782	5.6	83,766	7.9
New energy material (2)	5,907	0.4	5,667	0.5
Others	21,811	1.3	10,619	1.0
Total	1,648,763	100.0	1,064,055	100.0

Notes:

(1) The Group produces functional mica filler of different granule sizes, which can be used by the Group for the production of synthetic mica-based pearlescent pigment products. The functional mica filler can also be sold to the customers of the Group, in most cases upon the customers' requests, as their raw materials for the production of functional mica filler, insulating materials, refractory materials and nickel-hydrogen batteries.

(2) The Group had developed a number of synthetic mica-based new energy battery insulation and flame retardant materials. The high temperature resistance parameter reaches 1,150℃ and a high voltage breakdown resistance parameter reaches 20KV/mm.

The customers of the Group may be broadly divided into trading company customers and end user customers. The former will re-sell the products to their own customers with whom the Group does not have direct contractual relationship. End user customers are customers using the pearlescent pigment products for their own use and production purpose.

The table below sets forth an analysis of the Group's sales to trading company customers and end user customers by products:

	Year ended 31 December			
	2024		2023	
	RMB'000	*%*	*RMB'000*	*%*
Trading company customers				
— Pearlescent pigment products	1,273,209	77.2	796,922	74.9
— Functional mica filler	83,854	5.1	78,899	7.4
— New energy material*	—	—	—	—
— Others	19,029	1.2	9,469	0.9
	1,376,092	83.5	885,290	83.2
End user customers				
— Pearlescent pigment products	255,016	15.4	167,081	15.7
— Functional mica filler	8,928	0.5	4,867	0.5
— New energy material	5,907	0.4	5,667	0.5
— Others	2,820	0.2	1,150	0.1
	272,671	16.5	178,765	16.8
Total	1,648,763	100.0	1,064,055	100.0

* *Value insignificant*

The table below sets forth an analysis of the Group's sales to customers by location:

	Year ended 31 December			
	2024		2023	
	RMB'000	*%*	*RMB'000*	*%*
The PRC	1,358,357	82.4	961,325	90.3
Asia (1)	176,153	10.7	64,927	6.1
Europe (2)	60,837	3.7	22,599	2.1
Africa (3)	10,028	0.6	2,929	0.3
North America (4)	34,963	2.1	10,232	1.0
South America (5)	8,425	0.5	2,043	0.2
Total	1,648,763	100.0	1,064,055	100.0

* *Value insignificant*

Notes:

(1) Countries and territories in Asia include Pakistan, Hong Kong, Macau and Taiwan, Korea, Bangladesh, Japan, Saudi Arabia, Thailand, Turkey, Israel, India, Indonesia, Jordan, Singapore and Vietnam.

(2) European countries include Estonia, Belgium, Poland, Germany, Finland, the Netherlands, Serbia, Switzerland, Spain, Italy and the United Kingdom.

(3) Countries in Africa include Algeria, Morocco, Tunisia and Egypt.

(4) Countries in North America include the United States, Canada and Mexico.

(5) Countries in South America include Brazil and Chile.

Sales of pearlescent pigment products

The revenue generated from sales of pearlescent pigment products increased to approximately RMB1,528.3 million in the FY2024 from approximately RMB964.0 million in the FY2023, representing an increase of approximately RMB564.3 million or approximately 58.5%. Sales of natural mica-based pearlescent pigment products increased by approximately RMB312.6 million, or approximately 78.2%, as compared to the FY2023. Sales of synthetic mica-based pearlescent pigment products increased by approximately RMB80.1 million, or approximately 18.3%, as compared to the FY2023. Sales of glass flake-based pearlescent pigment products increased by approximately RMB62.8 million, or approximately 79.1%, as compared to the FY2023. Sales of silicon oxide-based pearlescent pigment products increased by approximately RMB30.9 million, or approximately 271.1%, as compared to the FY2023. Sales of aluminium oxide-based pearlescent pigment products increased by approximately RMB71.9 million, or 217.4%, as compared to the FY2023. Sales of aluminium-based pearlescent pigment products increased by approximately RMB6.0 million, or 273.0%, as compared to the FY2023. Sales of other non-pearlescent pigment products increased by approximately RMB20.4 million, or 20.4%, as compared to the FY2023. The increase in revenue from sales of pearlescent pigment products was mainly due to (a) the increase in both sales volume and sales price of pearlescent pigment products, and (b) the consolidation of CQV's full year revenue into the accounts of the Group for the FY2024, as compared to the consolidation of CQV's four- month's revenue for the FY2023.

Sales of functional mica filler

The sales of functional mica filler increased to approximately RMB92.8 million in the FY2024 from approximately RMB83.8 million in the FY2023, representing an increase of approximately RMB9.0 million or approximately 10.8%. The increase was due to the increasing demand for the synthetic mica-based pearlescent pigment products and the increase in the production of synthetic mica-based pearlescent pigment products as a result of technological improvement and the commercial operation of the additional equipment of Phase 1 Production Plant.

Sales of new energy material

New energy material produced by the Group included the synthetic mica-based new energy battery insulation and flame retardant materials. The sales of new energy material recorded approximately RMB5.9 million in the FY2024 (FY2023: approximately RMB5.7 million).

COST OF GOODS SOLD

The cost of goods sold increased by approximately 44.7% from approximately RMB528.0 million in the FY2023 to approximately RMB764.1 million in the FY2024. The increase in cost of goods sold was mainly due to the increase in the sales volume of pearlescent pigment products by approximately 35.9% from approximately 18,685 tonnes in the FY2023 to approximately 25,404 tonnes in the FY2024 and the increase in the sales volume of functional mica filler by approximately 11.4% from approximately 3,057 tonnes in the FY2023 to approximately 3,404 tonnes in the FY2024.

GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit increased to approximately RMB873.7 million in the FY2024 from approximately RMB528.3 million in the FY2023, representing an increase of approximately 65.4%. The increase in the amount of the gross profit was primarily due to the increase in the amount of revenue. The gross profit margin was approximately 53.0% for the FY2024, representing an increase of approximately 3.3% as compared to the gross profit margin for the FY2023. The increase in gross profit margin for the FY2024 as compared to the FY2023 was mainly attributable to the change in the products mix of the Group's products in the FY2024.

OTHER INCOME AND OTHER GAINS AND LOSSES

The amount of other income and other gains and losses in the FY2024 was approximately RMB2.4 million, as compared to approximately RMB28.0 million in the FY2023. The decrease was mainly due to the increase in exchange loss of approximately RMB28.4 million in the FY2024.

REVERSAL OF IMPAIRMENT LOSSES FOR TRADE, BILLS AND OTHER RECEIVABLES, NET

The Group has a reversal of impairment losses for trade, bills and other receivables, net of approximately RMB6.6 million in the FY2024, as compared to approximately RMB0.6 million in the FY2023.

SELLING EXPENSES

The selling expenses increased to approximately RMB95.5 million in the FY2024 from approximately RMB62.8 million in the FY2023, representing an increase of approximately 52.1%. The increase in the selling expenses was mainly attributable to the inclusion of CQV's selling expenses for a full financial year in the FY2024 by way of consolidation into the accounts of the Group and the increase in the Group's selling and transportation expenses, salaries and promotion expenses due to the increase in sales.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

The administrative and other operating expenses increased to approximately RMB262.4 million in the FY2024 from approximately RMB188.6 million in the FY2023, representing an increase of approximately 39.1%. Such increase was mainly attributable to inclusion of CQV's relevant expenses for a full financial year in the FY2024 by way of consolidation into the accounts of the Group; the expenses incurred in engaging professional services in relation to potential acquisition opportunities; the staff costs of addition of merger and acquisition team; and the increase in amortisation of intangible assets.

FINANCE COSTS

Finance costs increased from approximately RMB51.4 million in the FY2023 to approximately RMB118.4 million in the FY2024, representing a significant increase of approximately 130.3%. Such increase was mainly due to the increase in bank loans and other borrowings, the interest expenses for the unlisted, guaranteed and unsecured convertible bond in the principal amount of RMB300.0 million issued by the Company on 30 December 2022 ("**Tranche A Convertible Bond**"), the unlisted, and unsecured convertible bonds with a nominal value of US$40,000,000 issued by the Company on 8 November 2023 ("**First Tranche Initial Bond**") and the other borrowings for the preparation of the Transaction.

INCOME TAX EXPENSE

The income tax expense increased to approximately RMB86.0 million in the FY2024 from approximately RMB40.7 million in the FY2023. The increase was primarily due to expansion of the Group's business in Korea through CQV since August 2023; and the increase in PRC Enterprise Income Tax in the FY2024.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the FY2024 amounted to approximately RMB320.3 million, representing an increase of approximately 50.2%, as compared to approximately RMB213.3 million in the FY2023. Net profit margin for the FY2024 and the FY2023 was approximately 19.4% and 20.0%, respectively.

USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING AND CHANGE IN USE OF NET PROCEEDS

The shares (the "**Shares**") of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 16 July 2021. The Over-allotment Option (as defined and described in the prospectus (the "**Prospectus**") of the Company dated 30 June 2021) was partially exercised on 5 August 2021. The total number of new Shares issued by the Company under the global offering (the "**Global Offering**") was 319,742,000 and the amount of the net proceeds received by the Company from the Global Offering amounted to HK$970.2 million. The Company received the amount of the net proceeds from the Global Offering in July 2021 and August 2021, respectively.

As disclosed in the announcement of the Company dated 25 July 2024, on 25 July 2024, the Company has entered into an agreement with, among others, Merck KGaA in relation to the Transaction at the aggregate consideration of EUR665,000,000 (subject to adjustment) (the "**Consideration**"). Please refer to the said announcement of the Company and the section headed "Letter from the Board" of this circular for further information.

In light of (a) the Transaction, (b) the completion of relocation of certain structures built on the land in relation to the construction of a synthetic mica plant in Luzhai (the "**Luzhai Synthetic Mica Plant**") did not progress as contemplated, the Board has resolved to change the use of the unutilised proceeds in the aggregate amount of HK$330.8 million to finance the settlement of the Consideration of the Transaction.

The table below sets forth a summary of the original allocation of the net proceeds, the revised allocation of net proceeds and the actual utilisation amounts for the FY2024:

	Original allocation of the net proceeds from the Global Offering	Revised allocation of the net proceeds from the Global Offering	Percentage to the total net proceeds	Remaining balance as at 31 December 2023	Amount utilised up to 31 December 2024	Remaining balance as at 31 December 2024	Expected timeline for the intended use
	HK$' million	*HK$' million*	*%*	*HK$' million*	*HK$' million*	*HK$' million*	
Construction of the Phase 2 Production Plant	539.5	539.5	55.6	156.6	539.5	—	Utilised
Construction of the Luzhai Synthetic Mica Plant	330.8	—	—	—	—	—	—
Increase investment in research and development facilities and testing equipment of the research and development centre	68.9	68.9	7.1	—	68.9	—	Utilised
Sales and marketing activities and building sales network	31.0	31.0	3.2	4.9	31.0	—	Utilised
Financing the settlement of the Consideration of the Transaction	—	330.8	34.1	330.8	—	330.8	By end of 2025
Total	970.2	970.2	100.0	492.3	639.4	330.8	

The Group remains committed to the construction of the Luzhai Synthetic Mica Plant and intends to finance its construction by internal resources as and when necessary.

The Board considers that the changes in the use of net proceeds are fair and reasonable, and would meet the financial needs of the Group more efficiently and enhance the flexibility in financial management of the Company. The Board is of the view that the reallocation is in line with the business strategy of the Group and will not adversely affect the operation and business of the Group and is in the best interests of the Company and the Shareholders as a whole.

The Directors will continuously assess the business objectives of the use of net proceeds and will revise or amend such plans to cope with the changing market conditions to ensure the business growth of the Group.

USE OF THE NET PROCEEDS FROM THE ISSUE OF THE TRANCHE A CONVERTIBLE BOND

On 28 December 2022, the Company entered into the subscription agreement (the "**Subscription Agreement**") with Hong Kong Boyue International Investment Fund Co., Limited (the "**2022 CB Subscriber**"), pursuant to which the Company conditionally agreed to issue, and the 2022 CB Subscriber conditionally agreed to subscribe and pay for, the 3.50% coupon convertible bonds (the "**2022 Convertible Bonds**") in the aggregate principal amount up to RMB500.0 million, comprising the Tranche A Convertible Bond in the principal amount of RMB300.0 million and the Tranche B Convertible Bond in the principal amount of not more than RMB200.0 million. The 2022 Convertible Bonds have an initial conversion price of HK$7.6 per Share and are convertible into Shares. The closing price of the Shares on 28 December 2022, being the date on which the terms of the Subscription Agreement were fixed, was HK$4.00 per Share. Further details of the 2022 Convertible Bonds are disclosed in the announcement of the Company dated 28 December 2022.

On 30 December 2022, the Company completed the issue of the Tranche A Convertible Bonds in the principal amount of RMB300.0 million to the 2022 CB Subscriber. The amount of the net proceeds received by the Company from the issue of the Tranche A Convertible Bond amounted to RMB300.0 million. Further details of which are disclosed in the announcement of the Company dated 30 December 2022.

The table below sets forth the intended use of the net proceeds from the issue of the Tranche A Convertible Bond and the actual utilisation amount for the FY2024:

Prescribed usage	Allocation of the net proceeds from the issue of the Tranche A Convertible Bond	Percentage to the total net proceeds	Remaining balance as at 31 December 2023	Amount utilised up to 31 December 2024	Remaining balance as at 31 December 2024	Expected timeline for the intended use
	RMB' million	*%*	*RMB' million*	*RMB' million*	*RMB' million*	
Investment opportunities within the pearlescent pigments and synthetic mica industry	300.0	100.0	300.0	—[1]	300.0	By end of 2025

Note:

(1) During the FY2024, the Group did not use any of the net proceeds from the issue of the Tranche A Convertible Bond for the intended purpose as disclosed above because while the Group has identified the suitable investment opportunity in the Transaction, completion of the Transaction has not yet taken place in the FY2024. The Board confirms that the intended use remains unchanged and such unutilised proceeds in the FY2024 would be used by the end of 2025 for the same purpose.

On 31 July 2023, the 2022 CB Subscriber submitted to the Company that it was unable to complete the subscription for the Tranche B Convertible Bond on or before 31 July 2023. Therefore, the 2022 CB Subscriber will not proceed to subscribe for the Tranche B Convertible Bond. Further details of which are disclosed in the announcement of the Company dated 31 July 2023.

USE OF NET PROCEEDS FROM THE ISSUE OF THE FIRST TRANCHE INITIAL BOND

On 5 November 2023, the Company entered into an agreement (the "**Purchase Agreement**") with Billion New Limited (the "**2023 CB Subscriber**"), pursuant to which (i) the Company conditionally agreed to issue, and the 2023 CB Subscriber conditionally agreed to subscribe for, the 9.0% initial convertible bonds in the aggregate principal amount of up to US$50.0 million due 2025 (the "**Initial Bonds**"), comprising the First Tranche Initial Bond in the principal amount of up to US$40.0 million and the Second Tranche Initial Bond in the principal amount of up to US$10.0 million; and (ii) the Company may, pursuant to the terms of the Purchase Agreement, exercise the option to conditionally issue to the 2023 CB Subscriber and/or any other incoming investor(s) 9.0% option convertible bonds in the principal amount of up to US$30.0 million due 2025 (the "**Option Bonds**", together with the Initial Bonds, the "**2023 Convertible Bonds**"). The 2023 Convertible Bonds have an initial conversion price of HK$7.6 per Share and are convertible into Shares. The closing price of the Shares on 3 November 2023, being the date on which the terms of the Purchase Agreement were fixed, was HK$3.81 per Share. Further details of the 2023 Convertible Bonds are disclosed in the announcement of the Company dated 5 November 2023.

On 8 November 2023, the Company completed the issue of the First Tranche Initial Bond in the principal amount of US$40.0 million to the 2023 CB Subscriber. The amount of the net proceeds received by the Company from the issue of the First Tranche Initial Bond amounted to US$40.0 million. Further details of which are disclosed in the announcement of the Company dated 8 November 2023.

The table below sets forth the intended use of the net proceeds from the issue of the First Tranche Initial Bond and the actual utilisation amount for the FY2024:

Prescribed usage	Allocation of the net proceeds from the issue of the First Tranche Initial Bonds	Percentage to the total net proceeds	Amount utilised during up to 31 December 2024	Remaining balance as at 31 December 2024	Expected timeline for the intended use
	US$' million	*%*	*US$' million*	*US$' million*	
General working capital requirement of the Group	40.0	100.0	40.0	—	Utilised

On 8 March 2024, 8 July 2024 and 8 November 2024, the Company and the 2023 CB Subscriber entered into the first supplemental agreement, the second supplemental agreement and the third supplemental agreement, respectively, whereby the parties agreed to extend the period for the Company to exercise the option to issue the Option Bonds (the "**Option Bond Period**") by a total of 360 days (i.e. the last date of the Option Bond Period falling on 1 March 2025). Further details of which are disclosed in the announcements of the Company dated 8 March 2024, 8 July 2024 and 8 November 2024, respectively.

As the Company has not exercised the option to issue Option Bonds by 1 March 2025, being the last date of the Option Bond Period, the option to issue the Option Bonds under the Purchase Agreement has lapsed.

As at the date of the annual report of the Company for the FY2024, the unutilised balance of the net proceeds from the Global Offering and the issue of the Tranche A Convertible Bond are deposited in the licensed banks in the PRC and Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity and indebtedness

The Group's business operation is generally financed by its internal financial resources and bank loans and other borrowings.

As at 31 December 2024 and 2023, the bank and cash balances amounted to approximately RMB3,411.4 million and approximately RMB3,203.5 million, respectively. These balances were maintained at a prudent level for the purpose of satisfying the requirements for daily business operations of the Group, the Tonglu Project and the Consideration for the Transaction. The increase in the bank and cash balances as at 31 December 2024 was mainly due to the issuance of CQV Convertible Bond, cash generated from operating activities and the increase in bank loans and other borrowings.

As at 31 December 2024 and 2023, the bank loans and other borrowings amounted to approximately RMB1,729.0 million and RMB327.0 million, respectively. The increase in the borrowings was mainly attributable to the increase in new bank loans and other borrowings of approximately RMB1,699.1 million, offset by the repayment of bank loans and other borrowings of approximately RMB272.2 million during the FY2024.

As at 31 December 2024, the Group had liability component of the convertible bonds of approximately RMB683.3 million (as at 31 December 2023: approximately RMB576.1 million).

Borrowings

	2024	2023
	RMB'000	*RMB'000*
Bank loans:		
— Secured	490,369	174,947
— Secured — supplier finance arrangement	68,000	—
— Unsecured	363,856	11,001
Other borrowings:		
— Secured	762,848	61,072
— Unsecured	43,939	79,970
	1,729,012	326,990

The bank loans and other borrowings are repayable as follows:

	2024	2023
	RMB'000	*RMB'000*
Within one year	570,312	177,314
More than one year, but not exceeding two years	206,512	91,314
More than two year, but not exceeding five years	920,288	3,300
	1,697,112	271,928
Portion of other borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	31,900	55,062
	1,729,012	326,990
Less: Amount due for settlement within 12 months (shown under current liabilities)	(602,212)	(232,376)
Amount due for settlement after 12 months	1,126,800	94,614

The carrying amounts of the Group's bank loans and other borrowings are denominated in the following currencies:

	2024	2023
	RMB'000	*RMB'000*
RMB	914,882	192,012
HK$	35,773	71,011
EUR	740,358	—
US$	8,166	8,959
KRW	29,833	55,008
	1,729,012	326,990

The average interest rates as at 31 December 2024 and 2023 were as follows:

	2024	2023
Bank loans:		
— Secured	3.69% per annum	6.10% per annum
— Secured — supplier finance arrangement	2.4% per annum	—
— Unsecured	3.43% per annum	4.33% per annum
Other borrowings:		
— Secured	8.94% per annum	5.01% per annum
— Unsecured	2.82% per annum	3.73% per annum

Bank loans and other borrowings of approximately RMB1,161,777,000 (2023: RMB326,990,000) as at 31 December 2024 are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The fair value of other borrowings was approximate to their carrying amounts due to their short-term nature or carrying interest at variable rate.

The Group's secured bank loans of approximately RMB490,369,000 (2023: RMB174,947,000) are secured by the Group's restricted deposits, property, plant and equipment in PRC and Korea (2023: and right-of-use assets in PRC), and also secured by land and buildings owned by a substantial shareholder (who also is an executive director of the Company) of the Company and the close family members of this substantial shareholder of the Company, the corporate guarantees from a corporate substantial shareholder of the Company, together with personal guarantees of this substantial shareholder and an executive director of the Company and the close family members of this substantial shareholder of the Company.

The Group's secured other borrowings of approximately RMB762,848,000 (2023: RMB61,072,000) are secured by the Group's property, plant and equipment in the PRC, restricted deposits in the PRC and share mortgage of the subsidiaries of the Company.

Certain of the Group's bank loans and other borrowings facilities are subject to the fulfillment of covenants. Some of those relating to the Group's financial metrics which are tested periodically, are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the related borrowings would become payable on demand.

The Group has complied with the financial covenants of its borrowing facilities during the year ended 31 December 2024 (2023: Same).

The Group has entered into certain reverse factoring arrangements with banks, under which the Group obtained extended credit in respect of the invoice amounts owed to certain contractors and suppliers. Under these arrangements, the banks pay contractors and suppliers the amounts owed by the Group on the original due dates, which are normally 30 to 60 days after the invoice date for the comparable payables that are not part of the supplier finance arrangement within the same business line. The Group then settles with the banks 365 days after the original due dates with suppliers, with interest.

In the consolidated financial statement of financial position, the Group has presented the payables to the banks under these arrangements as "borrowings", in view of the nature and function of such liabilities when compared with the Group's trade payables. As at 31 December 2024, the carrying amount of financial liabilities under these arrangements amounted to RMB68,000,000.

In the consolidated statement of cash flows, payments to the banks are included within financing cash flows based on the nature of the arrangements.

Gearing ratio

The gearing ratio (calculated as total interest bearing borrowings divided by total assets) of the Group was approximately 34.3% as at 31 December 2024 (as at 31 December 2023: approximately 17.6%). The increase in the gearing ratio was mainly due to the increase of bank loans and other borrowings.

Net asset value

As at 31 December 2024 and 2023, the net assets of the Group amounted to approximately RMB4,353.1 million and approximately RMB4,085.1 million, respectively. Net asset value per Share contributed to owners of the Company as at 31 December 2024 amounted to approximately RMB2.73, as compared to approximately RMB2.55 as at 31 December 2023.

Contingent liabilities

As at 31 December 2024, there was a pending lawsuit in respect of seeking an injunction of patent infringement being brought against CQV during 2022 and claiming approximately RMB1.1 million. The Group intends to contest the claim, and while the final outcome of the proceedings is uncertain, it is the Directors' opinion that the ultimate liability, if any, will not have a material impact on the Group's financial position.

Pledge of assets

As at 31 December 2024, certain property, plant and equipment, and right-of-use assets and patents with aggregate net book value of approximately RMB531.1 million, as compared to approximately RMB242.0 million as at 31 December 2023, were pledged to financial institutions as collaterals for bank and other borrowings.

As at 31 December 2024, the restricted deposits and restricted bank deposits pledged as security for the Group's banking facility amounted to approximately RMB32.1 million (as at 31 December 2023: approximately RMB2.4 million).

CAPITAL STRUCTURE

There has been no other material change in the capital structure of the Company during the FY2024. The capital of the members of the Group comprises ordinary shares.

Information about the share options of the Company and details of changes in the share options granted by the Company for the FY2024 is set forth in the paragraph under "Share Option Scheme" below.

As at 31 December 2024, the Company had issued (i) the Tranche A Convertible Bond in the aggregate principal amount of RMB300.0 million in relation to the 2022 Convertible Bonds issue on 30 December 2022; and (ii) the First Tranche Initial Bond in the principal amount of US$40.0 million in relation to the 2023 Convertible Bonds issue on 8 November 2023. Both the Tranche A Convertible Bond and the First Tranche Initial Bond have an initial conversion price of HK$7.6 per Share and are convertible into the maximum of 43,815,789 and 40,789,474 Shares, respectively.

DIRECTORS' REPORT

The table below sets forth the summary of the convertible bonds for the FY2024.

Date of issue	Principal amount as at 1 January 2024	Maturity date	Conversion price per share	Amount converted into Shares during the FY2024	Amount redeemed during the FY2024	Outstanding principal amount as at 31 December 2024	Number of shares to be issued upon full conversion as at 31 December 2024
			HK$				
30 December 2022	RMB300,000,000.0	fourth anniversary of the date of issue	7.6	—	—	RMB300,000,000.0	— *(Note 1)*
8 November 2023	US$40,000,000.0	second anniversary of the date of issue	7.6	—	—	US$40,000,000.0	— *(Note 2)*

Note:

1. The Company made an application to the Listing Committee (as defined in the Listing Rules) for the listing of, and permission to deal in, 73,026,316 Shares, which may be issued and allotted upon the conversion of the aggregate principal amount up to RMB500.0 million of the 2022 Convertible Bonds at the initial conversion price of HK$7.6 per Share, on 30 December 2022. Such approval has been granted by the Listing Committee in January 2023.

2. The Company made an application to the Listing Committee (as defined in the Listing Rules) for the listing of, and permission to deal in, 81,578,947 Shares, which may be issued and allotted upon the conversion of the aggregate principal amount up to US$80.0 million of the 2023 Convertible Bonds at the initial conversion price of HK$7.6 per Share, on 7 November 2023. Such approval has been granted by the Listing Committee on 23 November 2023.

As at 31 December 2024, no conversion into shares had occurred for the Tranche A Convertible Bond and the First Tranche Initial Bond. If the conversion rights attaching to the Tranche A Convertible Bond and the First Tranche Initial Bond were fully exercised in accordance with relevant conditions, the Company would have issued 43,815,789 and 40,789,474 Shares, respectively, representing approximately 3.54% and 3.29%, respectively, of the total issued Shares as at 31 December 2024 and 3.31% and 3.08%, respectively, of the total issued Shares as enlarged by the issue of such conversion shares.

The table below sets forth the dilution impact of the full conversion of the Tranche A Convertible Bond and the First Tranche Initial Bond on the shareholding of the Shareholders (having referred to the Company's shareholding structure as at 31 December 2024 and assuming no further Shares would be issued by the Company):

Name of Shareholders	As at 31 December 2024		Immediately following the full conversion of the Tranche A Convertible Bond		Immediately following the full conversion of the Tranche A Convertible Bond and the First Tranche Initial Bond	
	No. of Shares	*% of the issued Shares*	*No. of Shares*	*% of the issued Shares*	*No. of Shares*	*% of the issued Shares*
Directors						
— Mr SU Ertian *(Note 1)*	427,057,948	34.47%	427,057,948	33.29%	427,057,948	32.27%
— Mr BAI Zhihuan *(Note 2)*	694,000	0.06%	694,000	0.05%	694,000	0.05%
— Mr LIM Kwang Su *(Note 3)*	13,481,181	1.09%	13,481,181	1.05%	13,481,181	1.02%
— Mr HU Yongxiang *(Note 4)*	19,285,200	1.56%	19,285,200	1.50%	19,285,200	1.46%
Substantial Shareholder						
— Guangxi Investment Group Co., Ltd. *(Note 5)*	123,638,000	9.97%	123,638,000	9.64%	123,638,000	9.34%
Public Shareholders	654,713,803	52.85%	654,713,803	51.05%	654,713,803	49.47%
The holder of the Tranche A Convertible Bond	—	—	43,815,789	3.42%	43,815,789	3.31%
The holder of the First Tranche Initial Bond	—	—	—	—	40,789,474	3.08%
Total	1,238,870,132	100.00%	1,282,685,921	100.00%	1,323,475,395	100.00%

Notes:

(1) Mr SU is the Chairman and the Chief Executive Officer of the Company and an executive Director. As at 31 December 2024, Mr SU was interested in an aggregate of 427,057,948 Shares, among which he was deemed to be interested in 418,729,948 Shares through certain corporations and he beneficially owned 8,328,000 Shares. Mr JIN Zengqin, an executive Director, was deemed to be interested in 43,934,148 Shares through two corporations controlled by Mr SU and him as at 31 December 2024.

(2) Mr BAI Zhihuan is an executive Director. As at 31 December 2024, Mr BAI Zhihuan beneficially owned 694,000 Shares.

(3) Mr LIM Kwang Su is an executive Director. As at 31 December 2024, Mr LIM Kwang Su beneficially owned 13,481,181 Shares.

(4) Mr HU Yongxiang is a non-executive Director. As at 31 December 2023, Mr HU Yongxiang was deemed to be interested in 19,285,200 Shares through a corporation.

(5) As at 31 December 2024, Guangxi Investment Group Co., Ltd. is deemed to be interested in 123,638,000 Shares through certain corporations.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital commitments represent the amount of capital expenditure contracted for as at a particular date but not yet incurred. As at 31 December 2024, the capital commitments amounted to approximately RMB5,873.1 million (as at 31 December 2023: approximately RMB275.1 million), which represent the Consideration. as well as the commitments to purchase property, plant and equipment including in relation to (a) the modifications and expansions of the Phase 1 Production Plant; (b) the construction of the Phase 2 Production Plant and the Luzhai Synthetic Mica Plant; (c) the Tonglu Project; and (d) the expansion of a research and development centre by CQV, and the respective acquisition of related facilities. It is estimated that the said commitments will be financed by internal resources and external financing.

FOREIGN EXCHANGE EXPOSURE

The Group primarily operates in the PRC and Korea and most of its business transactions, assets and liabilities are denominated in Renminbi and Korean Won. The Group is exposed to foreign currency risk primarily in respect of US dollars and Japanese Yen denominated transactions from its operations in Korea. To efficiently and effectively manage these risks, the Group's financing and treasury activities are centrally co-ordinated at the corporate level. As a matter of policy, the management of the Group regularly and closely monitors the Group's foreign currency exposure from time to time and considers hedging against significant foreign currency exposure shall the need arises, such as by way of using forward foreign exchange contracts and currency swaps where active markets for the relevant currencies exist. During the FY2024, the Group did not commit to any financial instruments to hedge its foreign currency risk exposure, as the Directors are of the opinion that the related foreign currency risk exposure has not adversely affect the Group's operations or liquidity and is manageable.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

Save for the Transaction as disclosed above, the Group did not have any other significant investment, material acquisition or disposal during the FY2024.

EMPLOYEES AND REMUNERATION POLICY

Employees are one of the most important assets of the Group and their contribution and support are valuable. The Group would regularly review the employees' compensation and benefits packages to reward and recognise those with outstanding performance. Other fringe benefits, such as employees' provident fund and share options, if applicable, are provided to attract and retain talents helping the Group in success.

The Group had 693 employees in Mainland China, 15 employees in Hong Kong and 193 employees in Korea as at 31 December 2024 (31 December 2023: 589, 9 and 171, respectively). The Group encourages high productivity and remunerates its employees based on their qualifications, work experience, prevailing market rates and individual contribution to the Group. Incentives in the form of bonuses and share options may also be offered to eligible employees based on individual performance. Pursuant to applicable laws and regulations, the Group has participated in relevant defined contribution retirement schemes administered by responsible government authorities in the PRC for its employees there, participated in defined benefit and defined contribution retirement pension plans in Korea for its employees there and provided a mandatory provident fund scheme to employees in Hong Kong.

SHARE OPTION SCHEME

A share option scheme (the "**Share Option Scheme**") of the Company was approved and conditionally adopted pursuant to the resolutions passed by the Shareholders on 2 June 2021 for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since the date it became unconditional and up to the date of the annual report of the Company for the FY2024.

The number of share options available for grant under the Share Option Scheme was 116,269,558 share options as at 1 January 2024 and 31 December 2024.

A summary of the salient terms of the Share Option Scheme is set forth below:

1	Purpose	To enable the Company to grant options to the Eligible Participants as incentives or rewards for their contribution or potential contribution to the Group.
2	Who may join	The Board may, at its absolute discretion, offer options to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme to: (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group (the "**Executive**"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (the "**Employee**"); (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

(collectively, the "**Eligible Participants**")

3	Maximum number of Shares	The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as of the date on which dealings in the Shares first commenced on the Stock Exchange, being 116,269,558 Shares. As at the date of the annual report of the Company for the FY2024, the total number of Shares available for issue under the Share Option Scheme was 116,269,558 Shares, representing approximately 9.39% of the total number of issued Shares as at such date.
4	Maximum number of option to each participant	No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Shares in issue from time to time. Any further grant of options above such limit shall be separately approved by the Shareholders in general meeting with such Eligible Participant and his close associates or associates, as applicable, abstaining from voting.
5	Offer period and amount payable for options	An offer shall remain open for acceptance by an Eligible Participant for a period of 28 days from the offer date, provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. The amount payable on acceptance of an option is HK$1.0.

6	Exercise of option	An option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the option period in the manner as set out in the Share Option Scheme by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and specifying the number of Shares in respect of which it is exercised. The exercise of any option may be subject to a vesting schedule to be determined by the Board in its absolute discretion at time of offering the grant of an option and shall be specified in the offer letter.
7	Subscription price	As the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a Share; (b) the closing price of a Share in the Stock Exchange's daily quotation sheet on the date of grant; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days (as defined in the Listing Rules) immediately preceding the date of grant.
8	Life of the Share Option Scheme	Subject to earlier termination by the Company in general meeting or the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, i.e. 16 July 2021, and will therefore expire on 16 July 2031, after which no further option will be granted or offered.

For further details of the Share Option Scheme, please refer to the section headed "Post-IPO Share Option Scheme" in Appendix V "Statutory and General Information" to the Prospectus.

(b) Management discussion and analysis of the Group for FY2023

BUSINESS REVIEW

BUSINESS DEVELOPMENT REVIEW

In the FY2023, under the leadership of the Directors and management, we focused on the core business of pearlescent materials, accelerated various strategic layouts, adopted positive changes and proactive response strategies, promoted the steady development of all businesses, made significant progress in various aspects, further consolidated our market position and ranked among the top three in the global pearlescent pigment market as measured by sales. For the FY2023, the Company's revenue amounted to approximately RMB1,064.1 million, representing a year-on-year increase of approximately 16.1%, while the net profit amounted to approximately RMB213.3 million, representing a decrease of approximately 9.8%, as compared to approximately RMB236.5 million in the year ended 31 December 2022 (the "**FY2022**"). EBITDA for the FY2023 amounted to approximately RMB369.6 million, representing a year-on-year increase of approximately 13.9% as compared with approximately RMB324.4 million for the FY2022.

Focused on the main business of pearlescent materials to enhance core competitiveness

In the FY2023, we dug deep into the production capacity of the Phase 1 Production Plant (as defined below) and steadily pushed forward the construction of the Phase 2 Production Plant (as defined below). The construction of the Phase 2 Pearlescent Material Plant of Chesir Pearl has been completed and it officially commenced production in February 2024, which will increase the Group's annual production capacity by 30,000 tonnes. The new plant applies automation and intelligent technology in depth, as part of the Group's commitment to become a global leader in the intelligent manufacturing of pearlescent pigments.

In the FY2023, we continued to expand the number of pearlescent pigment products we offered. We anchored on popular colours and market demand, and launched new high-end pearlescent pigments that are popular with many customers, further highlighting our brand strength, enriching our product matrix and building a strong competitive edge. During the FY2023, we launched 31 new natural mica-based pearlescent pigment products, 60 synthetic mica-based pearlescent pigment products, 18 glass flake-based pearlescent pigment products and 14 aluminium oxide-based pearlescent pigment products.

As at 31 December 2023, the total number of pearlescent pigment products offered by Chesir Pearl had reached 1,083, which comprise:

(a) 573 natural mica-based pearlescent pigment products under 17 series of different colours, textures and gloss levels;

(b) 422 synthetic mica-based pearlescent pigment products under 14 series of different colours, textures and gloss levels;

(c) 67 glass flake-based pearlescent pigment products under 4 series of different transparency, refractive index and flake structure; and

(d) 21 silicon oxide-based pearlescent pigment products under 1 series.

As at 31 December 2023, the total number of pearlescent pigment products offered by CQV, a then recently acquired non-wholly owned operating subsidiary of the Company in Korea, was 976 products, which comprise:

(1) 499 synthetic mica-based products;

(2) 158 natural mica-based products;

(3) 140 glass flake-based products;

(4) 98 aluminium oxide-based products;

(5) 3 PMSQ and silicon dioxide-based products;

(6) 42 hollow flake titanium oxide-based products;

(7) 33 aluminium silver paste metal pigment products; and

(8) 3 coloured aluminium metal pigment products.

Adhered to innovation-driven development, enhancing quantity and quality of scientific research achievements

During the FY2023, we invested RMB75.0 million in R&D, accounting for approximately 7.1% of operating revenue, representing a year-on-year increase of approximately 4.3%. We achieved good results in R&D, resulting in a large number of scientific and technological achievements with independent intellectual property rights. During the FY2023, we successfully obtained 16 new granted patents, filed 3 new patent applications and had 7 patents under substantive examination. We have been recognised as a “National High-tech Enterprise”, “National Intellectual Property Advantageous Enterprise”, “Guangxi Technological Innovation Demonstration Enterprise” and “Guangxi Innovative

Small and Medium-sized Enterprise". In addition, not long ago, we were also recognised as a "Guangxi Specialized, New Small and Medium-sized Enterprise (廣西專精特新中小企業)", which lays a solid foundation for the Company to grow into a "National Specialized, and New Small and Medium-sized Giant Enterprise (國家級專精特新小巨人企業)".

As at 31 December 2023, we owned a total of 151 patents, 74 registered trademarks and 4 software copyrights.

Strengthened deep integration of industry-academia-research, and promoted the transformation of scientific and technological achievements into productivity

During the FY2023, we comprehensively promoted the in-depth integration of the development of "industry, academia, research and application (產、學、研、用)" with Zhejiang University and other colleges and universities. We made breakthroughs in a number of new energy research and development projects jointly carried out with Zhejiang University, among which synthetic mica-based new energy battery insulation and flame retardant materials have been commercialised. Our subsidiary, Luzhai Chesir Pearl Mica Material Co., Ltd.* (鹿寨七色珠光雲母材料有限公司) ("**Chesir Luzhai**"), developed a variety of synthetic mica functional fillers, which are used in cosmetic functional fillers, art paints and other high-end fields, successfully opening up a second runway and creating a second growth curve.

Seized market opportunities to further strengthen market position

During the FY2023, we seized the market opportunity to further upgrade and optimise our marketing channels and enhance our brand influence. We actively participated in exhibitions around the world, such as the European Coatings Show (ECS2023) in Nuremberg, Germany, the 27th China International Coatings Exhibition (CHINACOAT2022), the edition of Personal Care and Homecare Ingredients (PCHi2023) (中國國際化妝品個人及家庭護理用品原料展覽會) in Guangzhou, and the 2023 China International Coatings Show (CHINACOAT)/China International Surface Treatment Exhibition (SFCHINA) in Shanghai, to promote pearlescent pigment products. We carried out targeted and precise marketing according to the product characteristics of each pearlescent pigment. In addition, we were actively preparing for further expansion into the international market. With the synergistic integration of CQV into our Group as further discussed below, our global marketing channel layout has become more optimised.

Accelerated integration, and achieved milestone results in the synergistic integration with CQV

In the FY2023, after the completion of the acquisition of CQV on 22 August 2023, the Group immediately commenced the post-acquisition integration of CQV into the operations of our Group, and engaged, a top global management consulting firm with rich experience in integrating multinational enterprises, to fully assist in advancing the synergistic integration work. Focusing on the synergistic integration of technology, products, business, sales channels, supply chain and other aspects, we formulated a comprehensive and detailed plan, clearly defined the integration objectives, team and function allocation, and steadily advanced the work through mutual visits and exchanges, in-depth communication at the plant, online communication and other technical means.

As at 28 March 2024, the Group and CQV had achieved milestone results in our synergistic integration in terms of the following:

(a) on product synergy, both of us complement each other's strengths in the product matrix of application areas, forming synergy effects and consolidating our advantages in the high-end market;

(b) on sales channel synergy, we integrate the market sales network of the two sides to achieve differentiated product cross-selling and to help the Company's domestic and overseas market expansion;

(c) on R&D technology synergy, we further integrate the technology research and development resources of both parties to promote the Company to become an industry leader in the global pearlescent pigment market with advanced technological leadership; and

(d) synergy of production and manufacturing, our excellent quality synthetic mica solves the raw material problem of CQV, promotes the accelerated release of CQV's production capacity, reduces the procurement cost, and further drives the Group to go from strength-to-strength in its synthetic mica business.

FINANCIAL REVIEW

REVENUE

The Group is principally engaged in the business of the production and sales of pearlescent pigment products and functional mica and related products in the PRC and Korea. The assets of the Group are substantially located in the PRC and Korea. Following the acquisition of CQV in August 2023 and as at 31 December 2023 and 28 March 2024, the Group operates two reportable segments, namely, the manufacturing and sales of pearlescent pigments products and functional mica filler and related products in the PRC (the "**PRC Business Operation**") and the manufacturing and sales of pearlescent pigment in the Republic of Korea (the "**Korea Business Operation**"), as compared to a single reportable segment prior to the acquisition of CQV. The Group's reportable segments are strategic business units managed by separate management as each segment requires different marketing strategies. The Group offers to its customers a range of pearlescent pigment products, namely (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; (d) silicon oxide-based pearlescent pigment products; (e) aluminium oxide-based pearlescent pigment products; and (f) aluminium-based pearlescent products.

The revenue of the Group is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties.

The table below sets forth an analysis of the Group's revenue by reportable segments:

	Year ended 31 December			
	2023		2022	
	Revenue	Proportion of Revenue	Revenue	Proportion of revenue
	RMB'000	*%*	*RMB'000*	*%*
PRC Business Operation	960,949	90.3	916,820	100.0
Korea Business Operation	103,106	9.7	—	—
Total	1,064,055	100.0	916,820	100.0

The total revenue of the Group increased from approximately RMB916.8 million for the FY2022 to approximately RMB1,064.1 million for the FY2023, representing a year-on-year increase of approximately 16.1%. The revenue generated from the PRC Business Operation, which accounted for approximately 90.3% (FY2022: 100%) of the total revenue of the Group for the FY2023, increased by approximately 4.8% from approximately RMB916.8 million for the FY2022 to approximately RMB960.9 million for the FY2023. Such increase was mainly due to the increase in sales in synthetic mica-based pearlescent pigment products. The revenue generated from the Korea Business Operation, recorded by way of the consolidation of CQV into the account of the Group as a non-wholly owned subsidiary of the Company since August 2023, amounted to approximately RMB103.1 million for the FY2023, accounting for approximately 9.7% (FY2022: Nil) of the total revenue of the Group for the FY2023.

The table below sets forth an analysis of the Group's revenue by major products:

	Year ended 31 December			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Pearlescent pigment products				
— Natural mica-based	399,762	37.6	412,954	45.0
— Synthetic mica-based	438,171	41.2	378,814	41.3
— Glass flakes-based	79,419	7.5	51,720	5.7
— Silicon oxide-based	11,395	1.0	7,211	0.8
— Aluminium oxide-based	33,060	3.1	—	—
— Aluminium-based	2,196	0.2	—	—
	964,003	90.6	850,699	92.8
Functional mica filler (1)	83,766	7.9	64,351	7.0
New energy material (2)	5,667	0.5	1,770	0.2
Others	10,619	1.0	—	—
Total	1,064,055	100.0	916,820	100.0

Notes:

(1) The Group produces functional mica filler of different granule sizes, which can be used by the Group for the production of synthetic mica-based pearlescent pigment products. The functional mica filler can also be sold to the customers of the Group, in most cases upon the customers' requests, as their raw materials for the production of functional mica filler, insulating materials, refractory materials and nickel-hydrogen batteries.

(2) The Group had developed a number of synthetic mica-based new energy battery insulation and flame retardant materials. The high temperature resistance parameter reaches 1,150°C and a high voltage breakdown resistance parameter reaches 20KV/mm.

The customers of the Group may be broadly divided into trading company customers and end user customers. The former will re-sell the products to their own customers with whom the Group does not have direct contractual relationship. End user customers are customers using the pearlescent pigment products for their own use and production purpose.

The table below sets forth an analysis of the Group's sales to trading company customers and end user customers by products:

	Year ended 31 December			
	2023		2022	
	RMB'000	%	*RMB'000*	%
Trading company customers				
— Pearlescent pigment products	796,922	74.9	698,412	76.2
— Functional mica filler	78,899	7.4	57,670	6.3
— New energy material*	—	—	—	—
— Others	9,469	0.9	—	—
	885,290	83.2	756,082	82.5
End user customers				
— Pearlescent pigment products	167,081	15.7	152,287	16.6
— Functional mica filler	4,867	0.5	6,681	0.7
— New energy material	5,667	0.5	1,770	0.2
— Others	1,150	0.1	—	—
	178,765	16.8	160,738	17.5
Total	1,064,055	100.0	916,820	100.0

* Value insignificant

The table below sets forth an analysis of the Group's sales to customers by location:

	Year ended 31 December			
	2023		2022	
	RMB'000	%	*RMB'000*	%
The PRC	961,325	90.3	896,477	97.8
Asia (1)	64,927	6.1	6,921	0.7
Europe (2)	22,599	2.1	6,455	0.7
Africa (3)	2,929	0.3	6,967	0.8
North America (4)	10,232	1.0	—	—
South America (5)	2,043	0.2	—	—
Total	1,064,055	100.0	916,820	100.0

* *Value insignificant*

Notes:

(1) Countries and territories in Asia include Pakistan, Hong Kong, Macau and Taiwan, Korea, Bangladesh, Japan, Thailand, Turkey, Israel, India, Indonesia, Jordan, Singapore, Vietnam, Kazakhstan, Uzbekistan, Malaysia and Australia.

(2) European countries include Estonia, Belgium, Poland, Germany, Finland, Netherlands, Serbia, Switzerland, Spain, Italy, the United Kingdom, France and Latvia.

(3) Countries in Africa include Algeria, Morocco, Tunisia and Egypt.

(4) Countries in North America include the United States, Canada and Mexico.

(5) Countries in South America include Brazil and Chile.

Sales of pearlescent pigment products

The revenue generated from sales of pearlescent pigment products increased to approximately RMB964.0 million in the FY2023 from approximately RMB850.7 million in the FY2022, representing an increase of approximately RMB113.3 million or approximately 13.3%. Sales of natural mica-based pearlescent pigment products decreased by approximately RMB13.2 million, or approximately 3.2%, as compared to the FY2022. Sales of synthetic mica-based pearlescent pigment products increased by approximately RMB59.4 million, or approximately 15.7%, as compared to the FY2022. Sales of glass flake-based pearlescent pigment products increased by approximately RMB27.7 million, or approximately 53.6%, as compared to the FY2022. Sales of silicon oxide-based pearlescent pigment products increased by approximately RMB4.2 million, or approximately 58.0%, as compared to the FY2022. Sales of aluminium oxide-based pearlescent pigment products increased by approximately RMB33.1 million, or 100%, as compared to the FY2022. Sales of aluminium-based pearlescent pigment products increased by approximately RMB2.2 million, or 100%, as compared to the FY2022. Sales of other non-pearlescent pigment products increased by approximately RMB10.6 million, or 100%, as compared to the FY2022.

Sales of functional mica filler

The sales of functional mica filler increased to approximately RMB83.8 million in the FY2023 from approximately RMB64.4 million in the FY2022, representing an increase of approximately RMB19.4 million or approximately 30.2%. The increase was due to the increasing demand for the synthetic mica-based pearlescent pigment products and the increase in the production of synthetic mica-based pearlescent pigment products as a result of technological improvement and the commercial operation of the additional equipment of Phase 1 Production Plant.

Sales of new energy material

New energy material produced by the Group included the synthetic mica-based new energy battery insulation and flame retardant materials. The sales of new energy material recorded approximately RMB5.7 million in the FY2023 (FY2022: approximately RMB1.8 million).

COST OF GOODS SOLD

The cost of goods sold increased by approximately 16.0% from approximately RMB455.2 million in the FY2022 to approximately RMB528.0 million in the FY2023. The increase in cost of goods sold was mainly due to the increase in the sales volume of pearlescent pigment products by approximately 4.0% from approximately 17,958 tonnes in the FY2022 to approximately 18,685 tonnes in the FY2023 and the increase in the sales volume of functional mica filler by approximately 44.5% from approximately 2,115 tonnes in the FY2022 to approximately 3,057 tonnes in the FY2023.

GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit increased to approximately RMB528.3 million in the FY2023 from approximately RMB455.3 million in the FY2022, representing an increase of approximately 16.0%. The increase in the amount of the gross profit was primarily due to the increase in the amount of revenue. The gross profit margin remained at approximately 49.7% for the FY2023, which was the same as that in the FY2022.

OTHER INCOME AND OTHER GAINS AND LOSSES

The amount of other income and other gains and losses in the FY2023 was approximately RMB28.0 million, as compared to approximately RMB18.3 million in the FY2022. The increase was mainly due to there is an exchange gain in the FY2023 but an exchange loss in the FY2022.

REVERSAL OF IMPAIRMENT LOSSES/IMPAIRMENT LOSSES FOR TRADE, BILLS AND OTHER RECEIVABLES, NET

The Group has a reversal of impairment losses for trade, bills and other receivables, net of approximately RMB0.6 million in the FY2023, as compared to impairment losses of approximately RMB3.5 million in the FY2022.

SELLING EXPENSES

The selling expenses increased to approximately RMB62.8 million in the FY2023 from approximately RMB56.7 million in the FY2022, representing an increase of approximately 10.8%. The increase in selling expenses was mainly attributable to the increase in selling expenses of the Group's new subsidiary, CQV, by RMB6.9 million.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

The administrative and other operating expenses increased to approximately RMB188.6 million in the FY2023 from approximately RMB128.0 million in the FY2022, representing an increase of approximately 47.3%. Such increase was mainly attributable to inclusion of CQV's relevant expenses by way of consolidation of CQV into the accounts of the Group as a non-wholly owned subsidiary of the Company since August 2023; the expenses incurred for merger and acquisition of CQV; the expenses incurred in engaging professional services in relation to potential acquisition opportunities; the staff costs of addition of merger and acquisition team; and the increase in amortisation of intangible assets.

FINANCE COSTS

Finance costs increased from approximately RMB11.0 million in the FY2022 to approximately RMB51.4 million in the FY2023, representing a significant increase of approximately 369.6%. Such increase was mainly due to the increase in bank loans and other borrowings, the interest expenses for the Tranche A Convertible Bond and the First Tranche Initial Bond.

INCOME TAX EXPENSE

The income tax expense increased to approximately RMB40.7 million in the FY2023 from approximately RMB38.0 million in the FY2022. The increase was primarily due to expansion of the Group's business in Korea through CQV since August 2023; the increase in PRC Enterprise Income Tax; and offset by the decrease in deferred tax in the FY2023.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the FY2023 amounted to approximately RMB213.3 million, representing a decrease of approximately 9.8%, as compared to approximately RMB236.5 million in the FY2022. Net profit margin for the FY2023 and the FY2022 was approximately 20.0% and 25.8%, respectively.

USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

The Shares of the Company have been listed on the Stock Exchange since 16 July 2021. The Over-allotment Option of the Company dated 30 June 2021) was partially exercised on 5 August 2021. The total number of new Shares issued by the Company under the Global Offering was 319,742,000 and the amount of the net proceeds received by the Company from the Global Offering amounted to HK$970.2 million. The Company received the amount of the net proceeds from the Global Offering in July 2021 and August 2021, respectively.

The table below sets forth the intended use of the net proceeds from the Global Offering and actual utilisation amounts for the FY2023:

Prescribed usage	Allocation of the net proceeds from the Global Offering	Percentage to the total net proceeds	Remaining balance as at 31 December 2022	Amount utilised during the year ended 31 December 2023	Remaining balance as at 31 December 2023	Expected timeline for the intended use
	HK$' million	*%*	*HK$' million*	*HK$' million*	*HK$' million*	
Construction of the Phase 2 Production Plant	539.5	55.6	341.7	185.1	156.6	By the first quarter of 2025
Construction of the Luzhai Synthetic Mica Plant	330.8	34.1	330.8	—[1]	330.8	By the second quarter of 2025
Increase investment in research and development facilities and testing equipment of the research and development centre	68.9	7.1	44.2	44.2	—	Utilised
Sales and marketing activities and building sales network	31.0	3.2	18.2	13.3	4.9[2]	By end of 2024
Total	970.2	100.0	734.9	242.6	492.3	

Notes:

(1) The net proceeds from the Global Offering that would be used for the construction of the Luzhai Synthetic Mica Plant amounted to HK$330.8 million. During the FY2023, the Group did not use any of such amount for the purpose primarily due to completion of relocation of certain structures built on the land by a corporation did not progress as contemplated. The Board confirms that the proposed use of the net proceeds from the Global Offering remains unchanged and that the unutilised portion of such amount would be used by second quarter of 2025 for the same purpose. There are no other changes in the completion time and the use of the net proceeds for the construction of the Luzhai Synthetic Mica Plant as originally planned.

(2) The net proceeds from the Global Offering that would be used for sales and marketing activities and building sales network amounted to HK$31.0 million. During the FY2023, the Group incurred expenses in sales and marketing activities in a practical manner, and as a result HK$4.9 million has remained unutilised as at 31 December 2023. The Board confirms that the proposed use of the net proceeds from the Global Offering remains unchanged and that the unutilised portion of such amount in the FY2023 would be used by the end of 2024 for the same purpose. There are no other changes in the use of the net proceeds as originally planned.

USE OF THE NET PROCEEDS FROM THE ISSUE OF THE TRANCHE A CONVERTIBLE BOND

On 28 December 2022, the Company entered into the Subscription Agreement with the 2022 CB Subscriber, pursuant to which the Company conditionally agreed to issue, and the 2022 CB Subscriber conditionally agreed to subscribe and pay for 2022 Convertible Bonds in the aggregate principal amount up to RMB500.0 million, comprising the Tranche A Convertible Bond in the principal amount of RMB300.0 million and the Tranche B Convertible Bond in the principal amount of not more than RMB200.0 million. The 2022 Convertible Bonds have an initial conversion price of HK$7.6 per Share and are convertible into Shares. Further details of the 2022 Convertible Bonds are disclosed in the announcement of the Company dated 28 December 2022.

On 30 December 2022, the Company completed the issue of the Tranche A Convertible Bonds in the principal amount of RMB300.0 million to the 2022 CB Subscriber. The amount of the net proceeds received by the Company from the issue of the Tranche A Convertible Bond amounted to RMB300.0 million. Further details of which are disclosed in the announcement of the Company dated 30 December 2022.

The table below sets forth the intended use of the net proceeds from the issue of the Tranche A Convertible Bond and the actual utilisation amount for the FY2023:

Prescribed usage	Allocation of the net proceeds from the issue of the Tranche A Convertible Bond	Percentage to the total net proceeds	Remaining balance as at 31 December 2022	Amount utilised during the year ended up to 31 December 2023	Remaining balance as at 31 December 2023	Expected timeline for the intended use
	RMB' million	*%*	*RMB' million*	*RMB' million*	*RMB' million*	
Investment opportunities within the pearlescent pigments and synthetic mica industry	300.0	100.0	300.0	—[(1)]	300.0	By end of 2024

Note:

(1) During the FY2023, the Group did not use any of the net proceeds from the issue of the Tranche A Convertible Bond for the intended purpose as disclosed above because the Group is still in the course of exploring suitable investment opportunities. The Board confirms that the intended use remains unchanged and such unutilised proceeds in the FY2023 would be used by the end of 2024 for the same purpose.

On 31 July 2023, the 2022 CB Subscriber submitted to the Company that it was unable to complete the subscription for the Tranche B Convertible Bond on or before 31 July 2023. Therefore, the 2022 CB Subscriber will not proceed to subscribe for the Tranche B Convertible Bond. Further details of which are disclosed in the announcement of the Company dated 31 July 2023.

USE OF NET PROCEEDS FROM THE ISSUE OF THE FIRST TRANCHE INITIAL BOND

On 5 November 2023, the Company entered into the Purchase Agreement with the 2023 CB Subscriber, pursuant to which (i) the Company conditionally agreed to issue, and the 2023 CB Subscriber conditionally agreed to subscribe for, the Initial Bonds, comprising the First Tranche Initial Bond in the principal amount of up to US$40.0 million and the Second Tranche Initial Bond in the principal amount of up to US$10.0 million; and (ii) the Company may, pursuant to the terms of the Purchase Agreement, exercise the Option Bonds. The 2023 Convertible Bonds have an initial conversion price of HK$7.6 per Share and are convertible into Shares. Further details of the 2023 Convertible Bonds are disclosed in the announcement of the Company dated 5 November 2023.

On 8 November 2023, the Company completed the issue of the First Tranche Initial Bond in the principal amount of US$40.0 million to the 2023 CB Subscriber. The amount of the net proceeds received by the Company from the issue of the First Tranche Initial Bond amounted to US$40.0 million. Further details of which are disclosed in the announcement of the Company dated 8 November 2023.

The table below sets forth the intended use of the net proceeds from the issue of the First Tranche Initial Bond and the actual utilisation amount for the FY2023:

Prescribed usage	**Allocation of the net proceeds from the issue of the First Tranche Initial Bonds**	**Percentage to the total net proceeds**	**Amount utilised during the year ended 31 December 2023**	**Remaining balance as at 31 December 2023**	**Expected timeline for the intended use**
	US$' million	*%*	*US$' million*	*US$' million*	
General working capital requirement of the Group	40.0	100.0	5.0	35.0	By end of 2025

On 8 March 2024, the Company and the 2023 CB Subscriber entered into a supplemental agreement, whereby the parties agreed to extend the period for the Company to exercise the option to issue the Option Bonds by 120 days. Further details of which are disclosed in the announcement of the Company dated 8 March 2024.

As at 28 March 2024, the unutilised balance of the net proceeds from the Global Offering, the issue of the Tranche A Convertible Bond, and the issue of the First Tranche Initial Bond are deposited in the licensed banks in the PRC and Hong Kong.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity and indebtedness

The Group's business operation is generally financed by its internal financial resources and bank loans and other borrowings.

As at 31 December 2023 and 2022, the bank and cash balances amounted to approximately RMB3,203.5 million and approximately RMB1,882.7 million, respectively. These balances were maintained at a prudent level for the purpose of satisfying the requirements for daily business operations and future expansion of the Group. The increase in the bank and cash balances as at 31 December 2023 was mainly due to the inclusion of those of CQV's by way of consolidation of CQV into the account of the Group as a non-wholly owned subsidiary of the Company since August 2023; proceeds received from the issue of the First Tranche Initial Bond; proceeds from the deemed disposal of equity interest in Chesir Luzhai; cash generated from operating activities; and increase of bank loans and other borrowings.

As at 31 December 2023 and 2022, the bank loans and other borrowings amounted to approximately RMB327.0 million and RMB203.3 million, respectively. The increase in the borrowings was mainly attributable to the consolidation of CQV as a non-wholly subsidiary of the Company since August 2023 and the increase in new bank loans and other borrowings of approximately RMB234.4 million, offset by the repayment of bank loans and other borrowings of approximately RMB201.3 million during the FY2023.

As at 31 December 2023, the Group had liability component of the convertible bonds of approximately RMB576.1 million (31 December 2022: approximately RMB294.2 million).

Borrowings

	2023	**2022**
	RMB'000	*RMB'000*
Bank loans		
— Secured	174,947	133,440
— Unsecured	11,001	—
Other borrowings		
— Secured	61,072	—
— Unsecured	79,970	69,873
	326,990	203,313

The bank loans and other borrowings are repayable as follows:

	2023	2022
	RMB'000	*RMB'000*
Within one year	177,314	2,500
More than one year, but not exceeding two years	91,314	130,940
More than two year, but not exceeding five years	3,300	—
	271,928	133,440
Portion of other borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	55,062	69,873
	326,990	203,313
Less: Amount due for settlement within 12 months (shown under current liabilities)	(232,376)	(72,373)
Amount due for settlement after 12 months	94,614	130,940

The carrying amounts of the Group's bank loans and other borrowings are denominated in the following currencies:

	2023	2022
	RMB'000	*RMB'000*
RMB	192,012	133,440
HK$	71,011	61,064
US$	8,959	8,809
KRW	55,008	—
	326,990	203,313

The average interest rates at 31 December 2023 and 2022 were as follows:

	2023	2022
Bank loans		
— Secured	6.10% per annum	6.50% per annum
— Unsecured	4.33% per annum	N/A
Other borrowings		
— Secured	5.01% per annum	N/A
— Unsecured	3.73% per annum	3.95% per annum

Bank loans and other borrowings of approximately RMB326,990,000 (2022: RMB203,313,000) as at 31 December 2023 are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The Group's secured bank loans of approximately RMB174,947,000 (2022: RMB133,440,000) are secured by the Group's property, plant and equipment in the PRC and Korea and right-of-use assets in the PRC and also secured by land and buildings owned by a substantial shareholder (who also is an executive director of the Company) of the Company and the close family members of this substantial shareholder of the Company, the corporate guarantees from a corporate substantial shareholder of the Company, together with personal guarantees of this substantial shareholder and an executive director of the Company and the close family members of this substantial shareholder of the Company.

The Group's secured other borrowings of approximately RMB61,072,000 (2022: RMB: Nil) are secured by the Group's property, plant and equipment in the PRC, and restricted deposit in the PRC.

Gearing ratio

The gearing ratio (calculated as total liabilities divided by total equity) of the Group was approximately 26.2% as at 31 December 2023 (31 December 2022: approximately 24.1%). The increase in the gearing ratio was mainly due to the increase of bank loans and other borrowings and the issue of the First Tranche Initial Bond.

Net asset value

As at 31 December 2023 and 2022, the net assets of the Group amounted to approximately RMB4,085.1 million and approximately RMB2,543.3 million, respectively. Net asset value per Share contributed to owners of the Company as at 31 December 2023 amounted to approximately RMB2.55, as compared to approximately RMB1.98 as at 31 December 2022.

Contingent liabilities

As at 31 December 2023, there was a pending lawsuit in respect of seeking an injunction of patent infringement being brought against CQV during 2022 and claiming approximately RMB1.1 million. The Group intends to contest the claim, and while the final outcome of the proceedings is uncertain, it is the Directors' opinion that the ultimate liability, if any, will not have a material impact on the Group's financial position.

Pledge of assets

As at 31 December 2023, certain property, plant and equipment, and right-of-use assets with aggregate net book value of approximately RMB242.0 million, as compared to approximately RMB139.7 million as at 31 December 2022, were pledged to financial institutions as collaterals for bank and other borrowings.

As at 31 December 2023, the restricted deposits pledged as security for the Group's other borrowings amounted to approximately RMB2.4 million (31 December 2022: Nil).

CAPITAL STRUCTURE

Save as disclosed, there was no other material change in the capital structure of the Company during the FY2023. The capital of the members of the Group comprises ordinary shares.

Information about the share options of the Company and details of changes in the share options granted by the Company for the FY2023 is set forth in the paragraph under "Share Option Scheme" below.

On 22 August 2023, in connection with the acquisition of CQV, 47,106,546 new ordinary shares of the Company were allotted and issued at a price of HK$8.0 for each new ordinary share under the general mandate granted to the Directors by a resolution of the Shareholders passed on 27 June 2023 as partial settlement of the aggregate consideration for the Acquisition of KRW85.9 billion (equivalent to approximately RMB465.7 million or approximately HK$531.6 million).

As at 31 December 2023, the Company had issued (i) the Tranche A Convertible Bond in the aggregate principal amount of RMB300.0 million in relation to the 2022 Convertible Bonds issue on 30 December 2022; and (ii) the First Tranche Initial Bond in the principal amount of US$40.0 million in relation to the 2023 Convertible Bonds issue on 8 November 2023. Both the Tranche A Convertible Bond and the First Tranche Initial Bond have an initial conversion price of HK$7.6 per Share and are convertible into the maximum of 43,815,789 and 40,789,474 Shares, respectively.

The table below sets forth the summary of the convertible bonds for the FY2023.

Date of issue	**Principal amount as at 1 January 2023**	**Maturity date**	**Conversion price per share**	**Amount converted into Shares during the FY2023**	**Amount redeemed during the FY2023**	**Outstanding principal amount as at 31 December 2023**	**Number of shares to be issued upon full conversion as at 31 December 2023**
			HK$				
30 December 2022	RMB300,000,000.0	fourth anniversary of the date of issue	7.6	—	—	RMB300,000,000.0	— (Note 1)
8 November 2023	—	second anniversary of the date of issue	7.6	—	—	US$40,000,000.0	— (Note 2)

Note:

1. The Company made an application to the Listing Committee (as defined in the Listing Rules) for the listing of, and permission to deal in, 73,026,316 Shares, which may be issued and allotted upon the conversion of the aggregate principal amount up to RMB500.0 million of the 2022 Convertible Bonds at the initial conversion price of HK$7.6 per Share, on 30 December 2022. Such approval has been granted by the Listing Committee in January 2023.

2. The Company made an application to the Listing Committee (as defined in the Listing Rules) for the listing of, and permission to deal in, 81,578,947 Shares, which may be issued and allotted upon the conversion of the aggregate principal amount up to US$80.0 million of the 2023 Convertible Bonds at the initial conversion price of HK$7.6 per Share, on 7 November 2023. Such approval has been granted by the Listing Committee on 23 November 2023.

As at 31 December 2023, no conversion into shares had occurred for the Tranche A Convertible Bond and the First Tranche Initial Bond. If the conversion rights attaching to the Tranche A Convertible Bond and the First Tranche Initial Bond were fully exercised in accordance with relevant conditions, the Company would have issued 43,815,789 and 40,789,474 Shares, respectively, representing approximately 3.54% and 3.29%, respectively, of the total issued Shares as at 31 December 2023 and 3.31% and 3.08%, respectively, of the total issued Shares as enlarged by the issue of such conversion shares.

The table below sets forth the dilution impact of the full conversion of the Tranche A Convertible Bond and the First Tranche Initial Bond on the shareholding of the Shareholders (having referred to the Company's shareholding structure as at 31 December 2023 and assuming no further Shares would be issued by the Company):

Name of Shareholders	**As at 31 December 2023**		**Immediately following the full conversion of the Tranche A Convertible Bond**		**Immediately following the full conversion of the Tranche A Convertible Bond and the First Tranche Initial Bond**	
	No. of Shares	*% of the issued Shares*	*No. of Shares*	*% of the issued Shares*	*No. of Shares*	*% of the issued Shares*
Directors						
— Mr SU Ertian *(Note 1)*	422,100,948	34.07%	422,100,948	32.91%	422,100,948	31.89%
— Mr BAI Zhihuan *(Note 2)*	694,000	0.06%	694,000	0.05%	694,000	0.05%
— Mr HU Yongxiang *(Note 3)*	19,285,200	1.56%	19,285,200	1.50%	19,285,200	1.46%
Substantial Shareholder						
— Guangxi Investment Group Co., Ltd. *(Note 4)*	166,656,344	13.45%	166,656,344	12.99%	166,656,344	12.59%
Public Shareholders	630,133,640	50.86%	630,133,640	49.13%	630,133,640	47.62%
The holder of the Tranche A Convertible Bond	—	—	43,815,789	3.42%	43,815,789	3.31%
The holder of the First Tranche Initial Bond	—	—	—	—	40,789,474	3.08%
Total	1,238,870,132	100.00%	1,282,685,921	100.00%	1,323,475,395	100.00%

Notes:

(1) Mr SU is the Chairman and the Chief Executive Officer of the Company and an executive Director. As at 31 December 2023, Mr SU was interested in an aggregate of 422,100,948 Shares, among which he was deemed to be interested in 419,047,948 Shares through certain corporations and he beneficially owned 3,053,000 Shares. Mr JIN Zengqin, an executive Director, was deemed to be interested in 44,252,148 Shares through two corporations controlled by Mr SU and him as at 31 December 2023.

(2) Mr BAI Zhihuan is an executive Director. As at 31 December 2023, Mr BAI Zhihuan beneficially owned 694,000 Shares.

(3) Mr HU Yongxiang is a non-executive Director. As at 31 December 2023, Mr HU Yongxiang was deemed to be interested in 19,285,200 Shares through a corporation.

(4) As at 31 December 2023, Guangxi Investment Group Co., Ltd. is deemed to be interested in 166,656,344 Shares through certain corporations.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital commitments represent the amount of capital expenditure contracted for as at a particular date but not yet incurred. As at 31 December 2023 and 2022, the capital commitments amounted to approximately RMB275.1 million and approximately RMB441.9 million, respectively, which represent the commitments to purchase property, plant and equipment and include (a) the modifications and expansions of the Phase 1 Production Plant and (b) the construction of the Phase 2 Production Plant and the Luzhai Synthetic Mica Plant and the acquisition of the related production facilities.

FOREIGN EXCHANGE EXPOSURE

The Group primarily operates in the PRC and Korea and most of its business transactions, assets and liabilities are denominated in Renminbi and Korean Won. The Group is exposed to foreign currency risk primarily in respect of US dollars and Japanese Yen denominated transactions arising from purchases of certain imported raw materials and sale and purchase transactions from its operations in Korea. The Directors are of the opinion that the related foreign currency risk exposure has not adversely affect the Group's operations or liquidity and is manageable. During the FY2023, the Group did not commit to any financial instruments to hedge its foreign currency risk exposure. However, the management of the Group will regularly and closely monitor the Group's foreign currency exposure and will consider hedging against significant foreign currency exposure should the need arises.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

Acquisition of CQV Shares and CQV Treasury Shares

On 27 January 2023, (i) the Company, Chesir International Holdings Limited ("**Chesir International**"), a wholly owned subsidiary of the Company, Star Cheer Corporation Limited ("**Star Cheer**"), a wholly owned subsidiary of Chesir International, and Mr CHANG Kil Wan ("**Mr CHANG**") entered into the share purchase agreement (the "**CQV Sale Shares A Agreement**"), pursuant to which Star Cheer conditionally agreed to purchase, and Mr CHANG conditionally agreed to sell, 2,255,189 shares of CQV, a company incorporated in the Republic of Korea with limited liability on 20 October 2000 with its shares listed on the Korea Securities Dealers Automated Quotations (KOSDAQ: 101240), (ii) the Company, Chesir International, Star Cheer and Mr LIM Kwang Su ("**Mr LIM**") entered into the share purchase agreement (the "**CQV Sale Shares B Agreement**"), pursuant to which Star Cheer conditionally agreed to purchase, and Mr LIM conditionally agreed to sell, 873,163 shares of CQV, and (iii) the Company and CQV entered into the share purchase agreement (the "**CQV Treasury Shares Agreement**"), pursuant to which the Company conditionally agreed to purchase, and CQV conditionally agreed to sell, 1,175,576 treasury shares of CQV (collectively, the "**Acquisition**").

The aggregate consideration for the Acquisition is KRW85.9 billion (equivalent to RMB465.7 million or HK$531.6 million) which will be settled upon the closing of the Acquisition by way of (a) cash payment of KRW25.0 billion (equivalent to RMB135.5 million or HK$154.8 million) and (b) allotment and issue of 47,106,546 new shares (the "**Consideration Shares**") of the Company at the issue price of HK$8.0 for each Consideration Share under the general mandate granted to the Directors by the Shareholders' resolution on 27 June 2023.

The Acquisition was approved by the Shareholders at the extraordinary general meeting of the Company held on 30 June 2023 and the closing of the Acquisition took place on 22 August 2023.

Upon the closing of the Acquisition, the Company holds 42.45% of the issued shares of CQV and is the single largest shareholder of CQV. CQV has become a non-wholly owned subsidiary of the Company with the financial performance and position to be consolidated into the accounts of the Group.

Further details of the Acquisition are disclosed in the announcement of the Company dated 27 January 2023, the circular of the Company dated 13 June 2023 and the announcement of the Company dated 23 August 2023.

Deemed Disposal of equity interest in Chesir Luzhai

On 20 November 2023, Luzhai Chesir Pearl Mica Material Co., Ltd.* (鹿寨七色珠光雲母材料有限公司) ("**Chesir Luzhai**"), an indirect non-wholly owned subsidiary of the Company, and Tonglu New City Development Investment Co., Ltd.* (桐廬新城發展投資有限公司) (the "**Investor**") entered into a capital increase agreement (the "**Capital Increase Agreement**"), pursuant to which the Investor conditionally agreed to inject RMB1,000,000,000 in cash into Chesir Luzhai (the "**Capital Increase**"). Upon completion of the Capital Increase, the effective equity interest of the Group in Chesir Luzhai will be diluted from approximately 65.28% to approximately 52.22%, and will therefore constitute a deemed disposal pursuant to Rule 14.29 of the Listing Rules (the "**Deemed Disposal**").

The Company intends to apply the net proceeds of the Capital Increase for its future business expansion and use of investment opportunities at the pearlescent pigments and synthetic mica and related industry.

As at 28 March 2024, all conditions precedent to the Capital Increase Agreement were fulfilled and the total consideration for the Capital Increase in the amount of RMB1,000,000,000 was received by Chesir Luzhai from the Investor. The registration and filing in relation to the Capital Increase with the relevant Administration for Market Regulation authorities of the PRC and the registration of the Investor as an equity interest holder of Chesir Luzhai were also completed.

For further details of the Capital Increase and the Deemed Disposal, which constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules, please refer to the announcements of the Company dated 20 November 2023 and 6 December 2023.

Save as disclosed above and in the paragraphs under "Use of the Net Proceeds from the Global Offering", "Use of the Net Proceed from the issue of the Tranche A Convertible Bond" and "Use of net proceeds from the issue of the First Tranche Initial Bond" in this section of "management discussion and analysis of the Group for FY2023", the Group did not have any other significant investment, material acquisition or disposal during the FY2023.

EMPLOYEES AND REMUNERATION POLICY

Employees are one of the most important assets of the Group and their contribution and support are valuable. The Group would regularly review the employees' compensation and benefits packages to reward and recognise those with outstanding performance. Other fringe benefits, such as employees' provident fund and share options, if applicable, are provided to attract and retain talents helping the Group in success.

The Group had 589 employees in Mainland China, nine employees in Hong Kong and 171 employees in Korea as at 31 December 2023* (31 December 2022: 581, five and Nil, respectively). The Group encourages high productivity and remunerates its employees based on their qualifications, work experience, prevailing market rates and individual contribution to the Group. Incentives in the form of bonuses and share options may also be offered to eligible employees based on individual performance. Pursuant to applicable laws and regulations, the Group has participated in relevant defined contribution retirement schemes administered by responsible government authorities in the PRC for its employees there and provided a mandatory provident fund scheme to employees in Hong Kong.

SHARE OPTION SCHEME

The Share Option Scheme of the Company was approved and conditionally adopted pursuant to the resolutions passed by the Shareholders on 2 June 2021 for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. No share option has been granted, exercised, cancelled or lapsed under the Share Option Scheme since the date it became unconditional and up to 28 March 2024.

The number of share options available for grant under the Share Option Scheme was 116,269,558 share options as at 1 January 2023 and 31 December 2023.

* Three of the employees are employed in both Mainland China and Hong Kong

A summary of the salient terms of the Share Option Scheme is set forth below:

1	Purpose	To enable the Company to grant options to the Eligible Participants as incentives or rewards for their contribution or potential contribution to the Group.
2	Who may join	The Board may, at its absolute discretion, offer options to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme to the Eligible Participants.
3	Maximum number of Shares	The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as of the date on which dealings in the Shares first commenced on the Stock Exchange, being 116,269,558 Shares. As at 28 March 2024, the total number of Shares available for issue under the Share Option Scheme was 116,269,558 Shares, representing approximately 9.39% of the total number of issued Shares as at such date.
4	Maximum number of option to each participant	No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Shares in issue from time to time. Any further grant of options above such limit shall be separately approved by the Shareholders in general meeting with such Eligible Participant and his close associates or associates, as applicable, abstaining from voting.
5	Offer period and amount payable for options	An offer shall remain open for acceptance by an Eligible Participant for a period of 28 days from the offer date, provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. The amount payable on acceptance of an option is HK$1.0.

6	Exercise of option	An option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the option period in the manner as set out in the Share Option Scheme by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and specifying the number of Shares in respect of which it is exercised. The exercise of any option may be subject to a vesting schedule to be determined by the Board in its absolute discretion at time of offering the grant of an option and shall be specified in the offer letter.
7	Subscription price	As the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a Share; (b) the closing price of a Share in the Stock Exchange's daily quotation sheet on the date of grant; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days (as defined in the Listing Rules) immediately preceding the date of grant.
8	Life of the Share Option Scheme	Subject to earlier termination by the Company in general meeting or the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, i.e. 16 July 2021, and will therefore expire on 16 July 2031, after which no further option will be granted or offered.

For further details of the Share Option Scheme, please refer to the section headed "Post-IPO Share Option Scheme" in Appendix V "Statutory and General Information" to the Prospectus.

(c) Management discussion and analysis of the Group for FY2022

BUSINESS REVIEW

The year of 2022 was extraordinary and full of challenges with a number of unexpected developments both in the international and domestic environments, such as the COVID-19 pandemic, Ukraine-Russia war and the regional geopolitical tensions between several countries. The global economy has struggled to recover from the COVID-19 pandemic and is faced with complicated and volatile risks and challenges. The Chinese government has coordinated well between the control of the pandemic and the sustainable economic and social developments. The economic performance in China was stable in 2022 and started to rebound at the beginning of 2023 following the combined effect of the economic stabilisation policies and the fiscal stimulation measures. Despite the impact of the unfavourable global environment, the pearlescent pigment industry has maintained a steady growth because of a number of positive developments, such as the increasing number of applications and the supports from the national industrial policies in China.

The Group has been developing its business towards its goals. During the FY2022, the Group's revenue amounted to RMB916.8 million, representing a year-on-year increase of 36.9%, and the profit attributable to owners of the Company amounted to RMB223.8 million, representing a year-on-year increase of 38.1%. In the FY2022, the Group seized the emerging business opportunities, optimised its sales channels, excavated the production capacity of the Phase 1 Production Plant[1] and actively enriched its product mix by focusing on the mid-to-high-end pearlescent pigment products, whereby maintaining a steady business growth during the year. The Group continued to expand the production capacity by constructing the Phase 2 Production Plant[2], the first stage of which has been completed and has commenced the trial production, which is expected to increase the Group's annual production capacity by 6,000 tonnes. The Group has also successfully developed a number of synthetic mica-based new energy battery insulation and flame retardant materials. The high temperature resistance parameter reaches 1,150ºC and the high voltage breakdown resistance parameter reaches 20KV/mm. The Group is actively developing new lines of products and new applications of its existing products. The Group has also issued convertible bonds in the amount of CNH300 million[3], the proceeds of which will be used for the investment opportunities in the pearlescent pigment industry.

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1. The production plant currently used by the Group for the production of pearlescent pigment products and functional mica filler and related products is located in Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC, with a total site area of 99,688.2 square meters ("**sq.m.**") and an aggregate gross floor area of 56,445.6 sq.m., and the designed annual production capacity of 18,740 tonnes of pearlescent pigment products and the designed annual production capacity of 12,470 tonnes of synthetic mica.
2. The production plant with an estimated total site area of 148,713.7 sq.m. for the production of pearlescent pigment products with an estimated designed annual production capacity of 30,000 tonnes.
3. CNH means RMB in the offshore market.

The Group's pearlescent pigment products may be broadly divided into (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products. The Group's pearlescent pigment products are used as colourants in various applications and industries, including industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings. As of 31 December 2022, the Group offered four major categories of pearlescent pigment products under different product series with different colours, particle sizes and glossiness as follows:

(a) 544 natural mica-based pearlescent pigment products under 17 series of different colours, texture and glossiness;

(b) 362 synthetic mica-based pearlescent pigment products under 14 series of different colours, texture and glossiness;

(c) 49 glass flake-based pearlescent pigment products under three series which has different transparency, refractive index and flake structure; and

(d) 21 silicon oxide-based pearlescent pigment products under one series.

FAVOURABLE NATIONAL POLICY

Since the implementation of the "14th Five-Year Plan" by the PRC government, the new and innovative material industry has received much attention and is one of the seven strategic emerging industries in China. The new and innovative material industry is considered to be a high-tech industry with significant development potential in the 21st century. The "14th Five-Year Plan" points to the research of high-end new and innovative materials and the development for production of the new and innovative material for the domestic consumption. Mica is one of the new and innovative materials in the industry promoted by the policy. In 2022, the synthetic mica was listed in the "Catalogue of Innovative Development of Industrial Foundation (2021 Edition)" (《產業基礎創新發展目錄(2021年版)》), which was compiled by the National Industrial Foundation Expert Committee under the guidance of the Chinese Academy of Engineering and the National Manufacturing Strategy Advisory Committee. The Ministry of Industry and Information Technology has named synthetic mica as one of the 18 key basic new and innovative materials in the project for strengthening industrial foundation (工業強基工程) and is categorised as a new energy material manufacturing and functional filler manufacturing sector of the strategic emerging industries. According to the "Classification of Strategic Emerging Industries (2018)" (No. 23 of the National Bureau of Statistics) (《戰略性新興產業分類(2018)》(國家統計局令第23號)), the mica-based pearlescent pigment products are another new functional materials which are categorised under the pigment manufacturing sector of the strategic emerging industries.

The National Standardisation Technical Committee of Paints and Pigments (全國塗料和顏料標準化技術委員會) has promulgated a number of new industry standards, including "UV-curable paints for cosmetic packaging materials", "Paints for rail vehicles" and "Self-peeling anti-fouling paints for marine use", which stipulate the requirements, testing methods and inspection standards for paints. Based on the good hydrophilicity and safety of the pearlescent pigment products, the promulgation of the industry standards will further increase the applications of pearlescent pigment products in the field of cosmetic and automotive coatings.

The "Announcement of the Ministry of Finance and the State Taxation Administration on Increasing the Export Tax Refund Rates for Certain Products" (《關於提高部分產品出口退稅率的公告》) sets forth the pigments products with their basic components as one of the commodities for export tax refund. The export tax refund rate for pearlescent pigment products has been increased to 13%. The increase in the export tax refund rate for the pearlescent pigment products will promote the export of the sales of pearlescent pigment products and further enhance international competitiveness of the pearlescent pigment products.

HIGH INDUSTRY GROWTH

According to the Euromonitor and Qianzhan Industry Research Institute (前瞻產業研究院), China's colour cosmetics market reached RMB71.595 billion in 2022, represents a year-on-year increase of 9.05%. The market is expected to reach RMB111.3 billion in 2028, with an average annual growth rate of 7.5% from 2023 to 2028. Benefiting from such rapid growth, the upstream pearlescent pigment market has tremendous potential for further development.

STABLE BUSINESS DEVELOPMENT FOR THE GROUP

During the FY2022, the Group's pearlescent pigment products continued to be used in a wide range of downstream applications, including industrial coatings, plastics, textiles and leather, cosmetics, ceramics and, more importantly, automotive coatings. An analysis of the revenue generated from the different types of pearlescent pigment products of the Group is set forth in the paragraphs under "Financial Review" below. Accordingly, during the FY2022, the Group's revenue amounted to RMB916.8 million, representing an increase of 36.9% from RMB669.7 million, as compared to the FY2021. This shows that the Group's business continued to grow steadily in the FY2022.

INVESTMENT IN RESEARCH AND DEVELOPMENT

During the FY2022, the Group continued to increase its investment in research and development and expansion of the product offerings of a number of new pearlescent pigment products.

During the FY2022, the Group has successfully applied three new patents and has submitted six patent applications. The Group has also registered 20 new trademarks. As of 31 December 2022, the Group had a total of 36 patents, 33 registered trademarks and four software copyrights.

During the FY2022, the Group launched 46 new natural mica-based pearlescent pigment products, 51 new synthetic mica-based pearlescent pigment products, 13 new glass flake-based pearlescent pigment products and three new silicon oxide-based pearlescent pigment products. As of 31 December 2022, the Group offered 544 natural mica-based, 362 synthetic mica-based, 49 glass flake-based and 21 silicon oxide-based products, and hence, the Group had 976 products offered to its customers.

With the joint efforts of the Chesir Pearlescent New Material Research and Development Centre (七色珠光新材料聯合研發中心) and the University of Zhejiang, the Group has developed a number of synthetic mica-based new energy battery insulation and flame retardant materials, with a high temperature resistance parameter reaches 1,150ºC and a high voltage breakdown resistance parameter reaches 20KV/mm. The Group is actively developing new lines of products and applications.

SEIZE BUSINESS OPPORTUNITIES TO FURTHER STRENGTHEN MARKET POSITION

During the FY2022, the Group continued to expand its production capacity. The first stage of the Phase 2 Production Plant has been completed and has commenced the trial production. The Group's production capacity will be further enhanced and is expected to increase by 6,000 tonnes per annum with the new production plant to focus on the production of high-end automotive and cosmetic grade pearlescent pigment products.

This project is a major project in Guangxi and a "Double Hundred and Double New (雙百雙新)" project, and it is also a green production base built using the world's most advanced technology and the highest environmental standards. The Phase 2 Production Plant has adopted advanced production equipment and has established an advanced production management platform data centre to integrate business information, physical information and management control information, realising intensive, process-oriented, standardised and intelligent management. Completion and commissioning of the project has further enhanced the competitiveness of the Group and paved a solid foundation for the future market share expansion of the Group.

After the completion of the acquisition of CQV, which is expected to be second quarter of 2023, the Group will have a more stringent research and development capability, increase its international market share, enrich its product applications, as well as enhance its competitive edge over its competitors.

The Group has issued the convertible bonds in the amount of CNH300 million, the proceeds of which will be used for investment opportunities in the pearlescent pigment industry.

FINANCIAL REVIEW

REVENUE

The Group is principally engaged in the business of the production and sales of pearlescent pigment products and functional mica filler and related products. The assets of the Group are substantially located in the PRC, and the Group operates one single reportable business segment, which is a strategic business unit centrally managed with the required technology and marketing strategies, and offers to its customers, a range of pearlescent pigment products, namely (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products.

The revenue of the Group is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties.

The table below sets forth an analysis of revenue by major products:

	Year ended 31 December			
	2022		2021	
	RMB' 000	*%*	*RMB' 000*	*%*
Pearlescent pigment products				
— Natural mica-based	412,954	45.0	347,936	51.9
— Synthetic mica-based	378,814	41.3	271,766	40.6
— Glass flakes-based	51,720	5.7	44,987	6.7
— Silicon oxide-based	7,211	0.8	3,018	0.5
	850,699	92.8	667,707	99.7
Functional mica filler [(1)]	64,351	7.0	2,020	0.3
New energy material [(2)]	1,770	0.2	—	—
Total	916,820	100.0	669,727	100.0

Notes:

(1) The Group produces functional mica filler of different granule sizes, which can be used by the Group for the production of synthetic mica-based pearlescent pigment products. The functional mica filler can also be sold to the customers of the Group, in most cases upon the customers' requests, as their raw materials for the production of functional mica filler, insulating materials, refractory materials and nickel-hydrogen batteries.

(2) The Group had developed a number of synthetic mica-based new energy battery insulation and flame retardant materials. The high temperature resistance parameter reaches 1,150˚C and a high voltage breakdown resistance parameter reaches 20KV/mm.

The customers of the Group may be broadly divided into trading company customers and end user customers. The former will re-sell the products to their own customers with whom the Group does not have direct contractual relationship. End user customers are customers using the pearlescent pigment products for their own use and production purpose.

The table below sets forth an analysis of the Group's sales to trading company customers and end user customers by products:

	Year ended 31 December			
	2022		2021	
	RMB' 000	%	*RMB' 000*	%
Trading company customers				
— Pearlescent pigment products	698,412	76.2	551,408	82.3
— Functional mica filler	57,670	6.3	244	—*
— New energy material	—	—	—	—
	756,082	82.5	551,652	82.3
End user customers				
— Pearlescent pigment products	152,287	16.6	116,299	17.4
— Functional mica filler	6,681	0.7	1,776	0.3
— New energy material	1,770	0.2	—	—
	160,738	17.5	118,075	17.7
Total	916,820	100.0	669,727	100.0

* *Value insignificant*

The table below sets forth an analysis of the Group's sales to customers by location:

	Year ended 31 December			
	2022		2021	
	RMB' 000	%	*RMB' 000*	%
The PRC	896,477	97.8	641,657	95.8
Asia (1)	6,921	0.7	10,446	1.6
Europe (2)	6,455	0.7	8,914	1.3
Africa (3)	6,967	0.8	8,403	1.3
South America (4)	—	—	307	—*
Total	916,820	100.0	669,727	100.0

* *Value insignificant*

Notes:

(1) Countries and territories in Asia include Pakistan, Hong Kong, Macau and Taiwan, Korea, Bangladesh, Japan, Saudi Arabia, Thailand, Turkey, Israel, India, Indonesia, Jordan, Singapore and Vietnam.

(2) European countries include Estonia, Belgium, Poland, Germany, Russia, Ukraine, Finland, Netherlands, Serbia, Switzerland, Spain, Italy and United Kingdom.

(3) Countries in Africa include Algeria, Morocco, Tunisia and Egypt.

(4) Countries in South America include Brazil and Chile.

Sales of pearlescent pigment products

The revenue generated from sales of pearlescent pigment products increased to RMB850.7 million in the FY2022 from RMB667.7 million in the year ended 31 December 2021 (the "**FY2021**"), representing an increase of RMB183.0 million or 27.4%. Sales of natural mica-based pearlescent pigment products increased by RMB65.0 million, or 18.7%, as compared to the same period in the FY2021. The Group expanded its sales product mix of natural mica-based pearlescent pigment products from 498 in the FY2021 to 544 in the FY2022. Sales of synthetic mica-based pearlescent pigment products increased by RMB107.0 million, or 39.4%, as compared to the same period in the FY2021. The Group expanded its sales product mix of synthetic mica-based pearlescent pigment products from 311 in the FY2021 to 362 in the FY2022. Sales of glass flake-based pearlescent pigment products increased by RMB6.7 million, or 15.0%, as compared to the same period in the FY2021. The Group expanded its sales product mix of glass flake-based pearlescent pigment products from 36 in the FY2021 to 49 in the FY2022. Sales of silicon oxide-based pearlescent pigment products increased by RMB4.2 million, or 138.9%, as compared to the same period in the FY2021. The Group expanded its sales product mix of silicon oxide-based pearlescent pigment products from 18 in the FY2021 to 21 in the FY2022.

Sales of functional mica filler

The sales of functional mica filler increased to RMB64.4 million in the FY2022 from RMB2.0 million in the FY2021, representing an increase of RMB62.4 million or 3,085.7%. The increase was due to the increasing demand for the synthetic mica-based pearlescent pigment products and the increase in the production of synthetic mica-based pearlescent pigment products as a result of technological improvement and the commercial operation of the additional equipment of Phase 1 Production Plant.

Sales of new energy material

New energy material produced by the Group included the synthetic mica-based new energy battery insulation and flame retardant materials. The sales of new energy material recorded RMB1.7 million in the FY2022 (FY2021: Nil).

COST OF GOODS SOLD

The cost of goods sold increased by 38.1% from RMB329.7 million in the FY2021 to RMB455.2 million in the FY2022. The increase in cost of goods sold was mainly due to the increase in the sales volume of pearlescent pigment products by 7.7% from 16,680 tonnes in the FY2021 to 17,958 tonnes in the FY2022 and the increase in the sales volume of functional mica filler by 4,130.0% from 50 tonnes in the FY2021 to 2,115 tonnes in the FY2022.

GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit increased to RMB455.3 million in the FY2022 from RMB334.6 million in the FY2021, representing an increase of 36.1%. The increase in the amount of the gross profit was primarily due to the increase in the amount of revenue. The gross profit margin in the FY2022 was 49.7%, as compared to 50.0% in the FY2021. The difference in the gross profit margin in the FY2022 and the FY2021 was insignificant.

OTHER INCOME AND OTHER GAINS AND LOSSES

The amount of other income and other gains and losses in the FY2022 was RMB18.3 million, as compared to RMB7.2 million in the FY2021. The increase was mainly due to the interest income of RMB11.0 million generated from fixed deposits placed by the Group in the FY2022.

IMPAIRMENT LOSSES FOR TRADE AND OTHER RECEIVABLES, NET

The amount of impairment losses for trade and other receivables, net in the FY2022 was RMB3.5 million, as compared to RMB2.7 million in the FY2021.

SELLING EXPENSES

The selling expenses increased to RMB56.7 million in the FY2022 from RMB34.4 million in the FY2021, representing an increase of 64.6%. The increase in selling expenses was mainly attributable to an increase in the Group's sales staff cost from RMB7.5 million in the FY2021 to RMB14.2 million in the FY2022, representing an increase of RMB6.7 million; and an increase in marketing and promotion expenses from RMB9.2 million in the FY2021 to RMB16.3 million in the FY2022, representing an increase of RMB7.1 million.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

The administrative and other expenses increased to RMB128.0 million in the FY2022 from RMB102.1 million in the FY2021, representing an increase of 25.4%. The increase was primarily due to the increase in the expenses incurred on research and development activities of RMB23.5 million. In the FY2022, the Group spent RMB71.9 million for its research and development activities, as compared to RMB48.4 million in the FY2021.

FINANCE COSTS

The finance costs decreased to RMB11.0 million in the FY2022 from RMB11.4 million in the FY2021, representing a slightly decrease of 3.5%. Such decrease was primarily due to the decrease in interest payments as a result of the repayment of bank loans and other borrowings of RMB1.8 million in the FY2022.

INCOME TAX EXPENSE

The income tax expense increased to RMB38.0 million in the FY2022 from RMB22.0 million in the FY2021. The increase was primarily due to the increase in the profit before tax in the FY2022.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the FY2022 amounted to RMB236.5 million, representing an increase of 39.9%, as compared with RMB169.1 million in the FY2021. Net profit margin for the FY2022 and the FY2021 was 25.8% and 25.3% respectively.

USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

The Shares of the Company have been listed on the Stock Exchange since 16 July 2021 (the "**Listing Date**"). The Over-allotment Option was partially exercised on 5 August 2021. The total number of new Shares issued by the Company under the Global Offering was 319,742,000 and the amount of the net proceeds received by the Company from the Global Offering amounted to HK$970.2 million. The Company received the amount of the net proceeds from the Global Offering in July 2021 and August 2021, respectively.

The table below sets forth the intended use of the net proceeds from the Global Offering and actual utilisation amounts for the FY2022:

Prescribed usage	Allocation of the net proceeds from the Global Offering	Percentage to the total net proceeds	Remaining balance as of 31 December 2021	Amount utilised up to 31 December 2022	Remaining balance as of 31 December 2022	Expected timeline for the intended use
	HK$' million	*%*	*HK$' million*	*HK$' million*	*HK$' million*	
Construction of the Phase 2 Production Plant	539.5	55.6	539.5	197.8	341.7	By the first quarter of 2025
Construction of the Luzhai Synthetic Mica Plant	330.8	34.1	330.8	—(1)	330.8	By the second quarter of 2025
Increase investment in research and development facilities and testing equipment of the research and development centre	68.9	7.1	65.2	21.0(2)	44.2	By end of 2023
Sales and marketing activities and building sales network	31.0	3.2	28.5	10.3	18.2	By end of 2023
Total	970.2	100.0	964.0	229.1	734.9	

Notes:

(1) The net proceeds from the Global Offering that would be used for the construction of the Luzhai Synthetic Mica Plant amounted to HK$330.8 million. During the FY2022, however, the Group did not use any of such amount for the purpose primarily due to certain structures built on the land by a corporation could not be relocated as scheduled. The relocation arrangement was completed in December 2022 and the construction has been resumed. The Board confirms that the proposed use of the net proceeds from the Global Offering remains unchanged and that the unutilised portion of such amount in the FY2022 would be used in 2023 for the same purpose. There are no other changes in the completion time and the use of the net proceeds for the construction of the Luzhai Synthetic Mica Plant as originally planned.

(2) The net proceeds from the Global Offering that would be used for the investment in research and development facilities and testing equipment of the research and development centre amounted to HK$68.9 million. During the FY2022, the Group is still in the process of identifying the facilities and testing equipment required for the Research and Development Centre as a result of utilising the facilities and testing equipment of the Chesir Pearlescent New Material Research and Development Centre. The Board confirms that the proposed use of the net proceeds from the Global Offering remains unchanged and that the unutilised portion of such amount in the FY2022 would be used in by the end of 2023 for the same purpose. There are no other changes in the use of the net proceeds as originally planned.

As of 27 March 2023, the unutilised balance of the net proceeds from the Global Offering are deposited in licensed banks in Hong Kong and the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity and indebtedness

The Group's business operation is generally financed by its internal financial resources and bank loans and other borrowings.

As of 31 December 2022 and 2021, the restricted bank balances and the bank and cash balances amounted to RMB1,882.7 million and RMB1,605.5 million, respectively. These balances were maintained at a prudent level for the purpose of satisfying the requirements for daily business operations of the Group. The increase in the bank and cash balances as of 31 December 2022 was mainly due to the increase in the cash generated from operating activities and the issue of the Tranche A Convertible Bond.

As of 31 December 2022 and 2021, the borrowings amounted to RMB203.3 million and RMB157.9 million, respectively. The increase in the borrowings was attributable to the new bank loans and other borrowings of RMB177.2 million, offset by the repayment of bank loans and other borrowings of RMB135.2 million in 2022.

As of 31 December 2022, the Group had liability component of the convertible bond of RMB294.2 million (31 December 2021: Nil).

Borrowings

	2022	**2021**
	RMB'000	*RMB'000*
Secured bank loans	133,440	133,740
Other borrowings		
— Secured	—	1,500
— Unsecured	69,873	22,649
	203,313	157,889

The bank loans and other borrowings are repayable as follows:

	2022	2021
	RMB'000	*RMB'000*
Within one year	2,500	135,240
More than one year, but not exceeding two years	130,940	—
Portion of other borrowings that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	133,440	135,240
	69,873	22,649
Less: Amount due for settlement within 12 months (shown under current liabilities)	203,313	157,889
	(72,373)	(157,889)
Amount due for settlement after 12 months	130,940	—

The carrying amounts of the Group's bank loans and other borrowings are denominated in the following currencies:

	2022	2021
	RMB'000	*RMB'000*
RMB	133,440	135,257
HK$	61,064	14,413
US$	8,809	8,219
	203,313	157,889

The average interest rates at 31 December 2022 were as follows:

	2022	2021
Secured bank loans	6.50% per annum	7.17% per annum
Other borrowings		
— Secured	N/A	8.85% per annum
— Unsecured	3.95% per annum	2.00% per annum

Bank loans and other borrowings of approximately RMB203,313,000 (2021: RMB156,389,000) as at 31 December 2022 are arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining balances of bank loans and other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The Group's secured bank loans of approximately RMB133,440,000 (2021: RMB133,740,000) are secured by the Group's property, plant and equipment and right-of-use assets and also secured by land and buildings owned by a substantial shareholder (who also is an executive director of the Company) of the Company and the close family members of this substantial shareholder of the Company, the corporate guarantees from a corporate substantial shareholder of the Company, together with personal guarantees of this substantial shareholder and an executive director of the Company and the close family members of this substantial shareholder of the Company.

The Group's secured other borrowings of approximately RMB1,500,000 as at 31 December 2021 are secured by the Group's property, plant and equipment.

Gearing ratio

The gearing ratio (calculated as total liabilities divided by total equity) of the Group was 24.1% as of 31 December 2022 (31 December 2021: 11.2%). The increase in the gearing ratio was mainly due to the increase in total liabilities as a result of the issue of the Tranche A Convertible Bond.

Net asset value

As of 31 December 2022 and 2021, the net assets of the Group amounted to RMB2,543.3 million and RMB2,342.7 million, respectively. Net asset value per Share contributed to owners of the Company as of 31 December 2022 amounted to RMB1.98, as compared to RMB1.82 as of 31 December 2021.

Contingent liabilities

As of 31 December 2022, the Group did not have any significant contingent liabilities.

Pledge of assets

As of 31 December 2022, certain property, plant and equipment, and right-of-use assets with aggregate net book value of RMB139.7 million, as compared to RMB112.0 million as of 31 December 2021, were pledged to financial institutions as collaterals for bank borrowings.

CAPITAL STRUCTURE

During the FY2022, there has been no material change in the capital structure of the Company. The capital of the members of the Group comprises ordinary shares.

Information about the share options of the Company and details of changes in the share options granted by the Company for the FY2022 is set forth in the paragraph under "Share Option Scheme" below.

As of 31 December 2022, the Company had issued the Tranche A Convertible Bond in the aggregate principal amount of CNH300.0 million. The Tranche A Convertible Bond has an initial conversion price of HK$7.6 per Share and are convertible into the maximum of 43,815,789 Shares. The table below sets forth the summary of the convertible bonds for the FY2022.

Date of issue	**Principal amount as of 1 January 2022**	**Maturity date**	**Conversion price per share**	**Amount converted into Shares during the FY2022**	**Amount redeemed during the FY2022**	**Outstanding principal amount as of 31 December 2022**	**Number of shares to be issued upon full conversion as of 31 December 2022**
	CNH		*HK$*	*CNH*	*CNH*	*CNH*	
30 December 2022	—	fourth anniversary of the date of issue	7.6	—	—	300,000,000.0	— (Note)

Note:

The Company made an application to the Listing Committee (as defined in the Listing Rules) for the listing of, and permission to deal in, 73,026,316 Shares, which may be issued and allotted upon the conversion of the aggregate principal amount up to CNH500.0 million of the Convertible Bonds at the initial conversion price of HK$7.6 per Share, on 30 December 2022. Such approval has been granted by the Listing Committee in January 2023.

As of 31 December 2022, no conversion into shares had occurred for the Tranche A Convertible Bond. If the conversion rights attaching to the Tranche A Convertible Bond were fully exercised in accordance with relevant conditions, the Company would have issued 43,815,789 Shares, representing approximately 3.68% of the total issued Shares as of 31 December 2022 and 3.55% of the total issued Shares as enlarged by the issue of such conversion shares.

The table below sets forth the dilution impact of the full conversion of the Tranche A Convertible Bond on the shareholding of the Shareholders (having referred to the Company's shareholding structure as of 31 December 2022 and assuming no further Shares would be issued by the Company):

Name of Shareholders	As of 31 December 2022		Immediately following the full conversion of the Tranche A Convertible Bond	
	No. of Shares	% of the issued Shares	No. of Shares	% of the issued Shares
Directors				
— Mr. SU Ertian *(Note 1)*	428,071,948	35.92%	428,071,948	34.65%
— Mr. BAI Zhihuan *(Note 2)*	694,000	0.06%	694,000	0.05%
— Mr. HU Yongxiang *(Note 3)*	19,285,200	1.62%	19,285,200	1.56%
Substantial Shareholder				
— Guangxi Investment Group Co., Ltd. *(Note 4)*	179,523,344	15.06%	179,523,344	14.53%
Public Shareholders	564,189,094	47.34%	564,189,094	45.66%
The holder of the Tranche A Convertible Bond	—	—	43,815,789	3.55%
Total	1,191,763,586	100%	1,235,579,375	100%

Notes:

(1) Mr. SU is the Chairman and the Chief Executive Officer of the Group and an executive Director. As of 31 December 2022, Mr. SU is deemed to be interested in 428,071,948 Shares through certain corporations. Mr. JIN Zengqin, an executive Director, is deemed to be interested in 52,976,148 Shares through two corporations controlled by Mr. SU and him as of 31 December 2022.

(2) Mr. BAI Zhihuan is an executive Director. As of 31 December 2022, Mr. BAI Zhihuan owns 694,000 Shares.

(3) Mr. HU Yongxiang is a non-executive Director. As of 31 December 2022, Mr. HU Yongxiang is deemed to be interested in 19,285,200 Shares through a corporation.

(4) As of 31 December 2022, Guangxi Investment Group Co., Ltd. is deemed to be interested in 179,523,344 Shares through certain corporations.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital commitments represent the amount of capital expenditure contracted for as of a particular date but not yet incurred. As of 31 December 2022 and 2021, the capital commitments amounted to RMB441.9 million and RMB635.0 million, respectively, which represent the commitments to purchase property, plant and equipment and include (a) the modifications and expansions of the Phase 1 Production Plant and (b) the construction of the Phase 2 Production Plant and the Luzhai Synthetic Mica Plant and the acquisition of the related production facilities.

FOREIGN EXCHANGE EXPOSURE

The Group has limited exposure to foreign currency risk as most of its business transactions, assets and liabilities are denominated in Renminbi, while payment for the purchase of certain imported raw materials are required to be settled in US dollars. The Group has not maintained any long-term hedging arrangement for this limited exposure as it monitors the exchange rates between Renminbi and US dollars from time to time and maintain sufficient amount of US dollars for settlement purpose.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed in the paragraphs under "Use of the Net Proceeds from the Global Offering" and "Use of the Net Proceed from the issue of the Tranche A Convertible Bond" in in this section of "Management discussion and analysis of the Group for FY 2022", the Group did not have any significant investment, material acquisition or disposal during the FY2022.

EMPLOYEES AND REMUNERATION POLICY

Employees are one of the most important assets of the Group and their contribution and support are valuable. The Group would regularly review the employees' compensation and benefits packages to reward and recognise those with outstanding performance. Other fringe benefits, such as employees' provident fund and share options, if applicable, are provided to attract and retain talents helping the Group in success.

The Group had 581 employees in Mainland China and five employees in Hong Kong as of 31 December 2022* (31 December 2021: 501 and two, respectively). The Group encourages high productivity and remunerates its employees based on their qualifications, work experience, prevailing market rates and individual contribution to the Group. Incentives in the form of bonuses and share options may also be offered to eligible employees based on individual performance. Pursuant to applicable laws and regulations, the Group has participated in relevant defined contribution retirement schemes administered by responsible government authorities in the PRC for its employees there and provided a mandatory provident fund scheme to employees in Hong Kong.

* *Two of the employees are employed in both Mainland China and Hong Kong*

SHARE OPTION SCHEME

The Share Option Scheme of the Company was approved and conditionally adopted pursuant to the resolutions passed by the Shareholders on 2 June 2021 for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. During the FY2022, no share options of the Company have been granted, exercised, cancelled or lapsed under the Share Option Scheme.

The number of share options available for grant under the Share Option Scheme was 116,269,558 share options as of 1 January 2022 and 31 December 2022.

A summary of the Share Option Scheme is set forth below:

1	Purpose	As incentive or rewards to eligible participants for their contribution or potential contribution to the Group.
2	Participants	The Eligible Participants.
3	Total number of securities available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as of 27 March 2023	A maximum of 116,269,558 shares to be allotted and issued, representing 9.76% of the issued shares of the Company as at 27 March 2023.
4	Maximum entitlement of each participant	1% of the Shares in issue from time to time.
5	Period within which the securities must be taken up under an option	28 days from the offer date, provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme.
6	Minimum period, if any, for which an option must be held before it can be exercised	To be determined at time of offering the grant of an option.
7	Amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	HK$1.0 on acceptance.
8	Basis of determining the exercise price	At the discretion of the Board at the time of grant of the option but the subscription price shall not be less than whichever the highest of:

		(a) the nominal value of a Share; (b) the closing price of a Share in the Stock Exchange's daily quotation sheet on the date of grant; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days (as defined in the Listing Rules) immediately preceding the date of grant.
9	The remaining life of the Share Option Scheme	10 years from the date on which it becomes unconditional.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company, the Transaction and the Agreement. The Directors, having made all reasonable enquiries, confirm to the best of their knowledge and belief that the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive and that there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Director's and chief executive's interests and short positions in the Shares, underlying Shares or debentures of the Company

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have taken under such provisions of the SFO); (b) entered in the register kept by the Company pursuant to section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set forth in Appendix C3 to the Listing Rules, were as follows:

Long position in the Shares

Name of Director	Nature of interest and capacity	Number of the Shares or underlying Shares interested	Approximate percentage of shareholding
Mr. SU Ertian ("**Mr. SU**")	Interest in controlled corporation (1)	301,155,800	24.31%
	Interest in controlled corporation (2)	45,337,828	3.66%
	Interest in controlled corporation (3)	27,234,172	2.20%
	Interest in controlled corporation (4)	1,068,000	0.09%
	Interest in controlled corporation (5)	20,227,200	1.63%
	Interest in controlled corporation (6)	19,458,948	1.57%
	Beneficial owner	19,062,000	1.54%
Mr. JIN Zengqin ("**Mr. JIN**")	Interest in controlled corporation (5)	20,227,200	1.63%
	Interest in controlled corporation (6)	19,458,948	1.57%
Mr. LIM Kwang Su	Beneficial owner	13,481,181	1.09%
Mr. HU Yongxiang ("**Mr. HU**")	Interest in controlled corporation (7)	19,285,200	1.56%

Notes:

(1) *The Shares are owned by Hongzun Int Investment Group Ltd. ("**Hongzun International**"), which is wholly-owned by Guangxi Hongzun Investment Group Co., Ltd. ("**Hongzun Investment**"). Hongzun Investment is owned as to 99.0% and 1.0% by Mr. SU and Ms. WANG Huan, the spouse of Mr. SU, respectively. Therefore, Mr. SU is deemed to be interested in all the Shares held by Hongzun Investment for the purpose of the SFO. Mr. SU is the chairman of Hongzun Investment. Mr. SU is the sole director of Hongzun Investment and Hongzun International, respectively.*

(2) *Ertian International Investment Limited ("**Ertian International**") is wholly-owned by Mr. SU. Therefore, Mr. SU is deemed to be interested in all the Shares held by Ertian International for the purpose of the SFO. Mr. SU is the sole director of Ertian International.*

(3) *Seven Color Pearl Investment Limited ("**Seven Color Pearl Investment**") is wholly-owned by Mr. SU. Therefore, Mr. SU is deemed to be interested in all the Shares held by Seven Color Pearl Investment for the purpose of the SFO. Mr. SU is the sole director of Seven Color Pearl Investment.*

(4) *The general partner of Liuzhou Lianrun Enterprise Management Partnership Enterprise (Limited Partnership) ("**Liuzhou Lianrun LP**") is Mr. SU who owns 11,000 shares of Liuzhou Lianrun LP. The original 21 individual equity holders of Guangxi Chesir Pearl Material Co., Ltd. ("**Chesir Pearl**"), who are limited partners and independent third parties, own 167,000 shares of Liuzhou Lianrun LP. Therefore, Mr. SU is deemed to be interested in all the Shares held by Liuzhou Lianrun LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner contributed more than one-third of the capital contribution of Liuzhou Lianrun LP.*

(5) *The general partner of Liuzhou Qise Enterprise Management Partnership Enterprise (Limited Partnership) ("**Liuzhou Qise LP**") is Mr. SU who owns 10,000 shares of Liuzhou Qise LP. Mr. JIN, being one of the limited partners, owns 1,565,200 shares of Liuzhou Qise LP and the original 12 individual equity holders of Chesir Pearl, who are limited partners and independent third parties, own 2,465,000 shares of Liuzhou Qise LP. Therefore, Mr. SU and Mr. JIN are deemed to be interested in all the Shares held by Liuzhou Qise LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner (except Mr. JIN) contributed more than one-third of the capital contribution of Liuzhou Qise LP.*

(6) *The general partner of Liuzhou Colorful Enterprise Management Partnership Enterprise (Limited Partnership) ("**Liuzhou Colorful LP**") is Mr. SU who owns 10,000 shares of Liuzhou Colorful LP. Mr. JIN, being one of the limited partners, owns 1,500,000 shares of Liuzhou Colorful LP and the original 10 individual equity holders of Chesir Pearl, who are limited partners and independent third parties, own 1,772,158 shares of Liuzhou Colorful LP. Therefore, Mr. SU and Mr. JIN are deemed to be interested in all the Shares held by of Liuzhou Colorful LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner (except Mr. JIN) contributed more than one-third of the capital contribution of Liuzhou Colorful LP.*

(7) *Mr. HU is the sole director of China Banyan Capital INT Holdings Limited who owns 50 shares of China Banyan Capital INT Holdings Limited. The original 12 individual equity holders of Chesir Pearl, who are independent third parties, hold 49,950 shares of China Banyan Capital INT Holdings Limited. Therefore, Mr. HU is deemed to be interested in the Shares held by China Banyan Capital INT Holdings Limited.*

(8) *The total number of issued Shares were 1,238,870,132 as of the Latest Practicable Date.*

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or the chief executive of the Company and any of their associates had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) entered in the register kept by the Company pursuant to section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code

(b) directorship or employment in a company which has an interest or short position which is discloseable under divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and the chief executive of the Company, as of the Latest Practicable Date, the following Director(s) is a director or employee of the following entities which had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of companies which had such discloseable interest or short position	Position within such company
Mr. SU	Hongzun International	Director
Mr. SU	Hongzun Investment	Director
Mr. SU	Ertian International	Director
Mr. SU	Seven Color Pearl Investment	Director
Mr. HU	China Banyan Capital INT Holdings Limited	Director

Except as disclosed above, as of the Latest Practicable Date, none of the Directors or proposed Directors (if any) is a director or employee of any person or corporation who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO.

(c) Substantial shareholders' and others' interests and short positions in the Shares and underlying Shares

So far as the Directors are aware, as of the Latest Practicable Date, the persons (other than the Directors or chief executive of the Company) who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Nature of interest and capacity	Number of the Shares or underlying Shares interested	Approximate percentage of shareholding
Hongzun International	Beneficial owner	301,155,800	24.31%
Hongzun Investment	Interest in controlled corporation(1)	301,155,800	24.31%
Ms. WANG Huan ("**Ms. WANG**")	Spouse interest(2)	433,543,948	35.00%
Guangxi Energy Co., Ltd. (formerly known as Guangxi Guidong Electric Power Co., Ltd.) ("**Guangxi Energy**")	Beneficial owner(3)	98,401,000	7.94%
Guangxi Guangtou Zhengrun Development Group Co., Ltd. (formerly known as Guangxi Zhengrun Development Group Co., Ltd.)	Interest in controlled corporation(3)	98,401,000	7.94%
Guangxi Investment Group Co., Ltd. ("**Guangxi Investment**")	Interest in controlled corporation(3)(4)	110,291,000	8.90%

Notes:

(1) Hongzun International is wholly-owned by Hongzun Investment. Therefore, Hongzun Investment is deemed to be interested in all the Shares held by Hongzun International for the purpose of the SFO. Mr. SU is the sole director of Hongzun International and Hongzun Investment, respectively.

(2) Ms. WANG was deemed to be interested in all the Shares held by her spouse, Mr. SU.

(3) Guangxi Energy is a listed company on the Shanghai Stock Exchange (stock code: 600310) and is owned as to 32.47% by Guangxi Guangtou Zhengrun Development Group Co., Ltd. (which in turn is wholly-owned by Guangxi Investment) as at the Latest Practicable Date. Therefore, Guangxi Guangtou Zhengrun Development Group Co., Ltd and Guangxi Investment are deemed to be interested in all the Shares held by Guangxi Energy. Guangxi Investment is wholly-owned by the PRC Government.

(4) *GX Land & Sea Connectivity Holding Ltd ("**GX Land & Sea**") owns 11,890,000 Shares as at the Latest Practicable Date. GX Land & Sea is wholly-owned by Guangxi Land & Sea Connectivity Fund (Limited Partnership), which is a limited partnership established in the PRC. Guangxi Land & Sea Connectivity Fund (Limited Partnership) is owned as to 49.5% by Guangtou Capital Management Group Co., Ltd. and 49.5% by China Development Bank Capital Co., Ltd. and its general partner is Guangxi Luhai New Channel Equity Investment Management Center (Limited Partnership). Guangxi Luhai New Channel Equity Investment Management Center (Limited Partnership) is owned as to 39.6% by Yououbi Investment Management (Shanghai) Co., Ltd. and its general partner is Guangxi Luhai New Channel Equity Investment Management Co., Ltd., which in turn is owned as to 35.0% by China Development Bank Capital Co., Ltd. and 35.0% by Guangtou Capital Management Group Co., Ltd. Guangtou Capital Management Group Co., Ltd. is owned as to 90.0% by Guangxi Financial Investment Group Co., Ltd. and 10.0% by Guangxi Investment. Guangxi Financial Investment Group Co., Ltd is owned as to 68.22% by Guangxi Investment, which in turn is wholly-owned by the PRC Government. China Development Bank Capital Co., Ltd is wholly-owned by China Development Bank, which is owned as to 36.5% by the Ministry of Finance of the PRC and 34.7% by Central Huijin Investment Ltd. Central Huijin Investment Ltd. is wholly-owned by China Investment Co., Ltd., which in turn is wholly-owned by the PRC government. Therefore, Guangxi Investment is deemed to be interested in all the Shares held by GX Land & Sea.*

(5) The total number of issued Shares were 1,238,870,132 as of the Latest Practicable Date.

Save as disclosed above, as of the Latest Practicable Date, the Directors were not aware of any other person or corporation having an interests or short positions in the Shares and underlying Shares as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

3. DIRECTOR'S INTERESTS

(a) Interest in service contracts

As of the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group which is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

(b) Interest in competing business

As of the Latest Practicable Date, none of the Directors or their respective close associate was interested in any business apart from the Group's business, that competes or is likely to compete, either directly or indirectly, with the Group's business.

(c) Interest in assets

As of the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2024, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(d) Interest in contract or arrangement

As of the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

4. LITIGATION

As of the Latest Practicable Date, save as disclosed in the paragraphs under "Indebtedness statement of the Enlarged Group" in Appendix I to this circular, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any members of the Enlarged Group.

5. MATERIAL CONTRACTS

As of the Latest Practicable Date, the following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

(a) the purchase agreement dated 5 November 2023 (and the supplemental agreement dated 8 March 2024) entered into between the Company and Billion New Limited in relation to, among other things, the issuance of 9.0% convertible bonds by the Company; and

(b) the Agreement.

6. EXPERTS AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants and Registered Public Interest Entity Auditor
RSM Hong Kong	Certified Public Accountant and Registered Public Interest Entity Auditor

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and reference to its names in the form and context in which they appear.

As of the Latest Practicable Date, each of the above experts (a) did not have any shareholding in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group and (b) was not interested, directly or indirectly, in any assets which have been or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2024, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. DOCUMENTS ON DISPLAY

Copies of the below documents will be available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chesir.net) from the date of this circular up to 14 days thereafter (both days inclusive):

(i) the Agreement;

(ii) the accountants' report on the Target Companies, the text of which is set forth in Appendix II to this circular;

(iii) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set forth in in Appendix III to this circular; and

(iv) the letters of consent from the experts referred to in the paragraphs under "6. Experts and consent" in this appendix.

Waiver from strict compliance with Rule 14.66(10) and 14.69(2) in relation to paragraph 43(2)(c) of Appendix D1B to the Listing Rules

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 14.66(10) and 14.69(2) in relation to paragraph 43(2)(c) of Appendix D1B to the Listing Rules to redact certain information in the Agreement on display concerning the names, identification numbers and contact details of certain individuals (the "**Personal Data**") on the following basis:

(i) the Personal Data is private and confidential in nature and constitutes personal information of the individuals, all of whom have not given their respective consent to the Company for the disclosure of the Personal Data, and the Company may be in violation of the EU General Data Protection Regulation (2016/679) and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) for disclosing the Personal Data without consent. Such Personal Data was set out solely for the purpose of carrying out the Transaction and is not material to the decision of the Shareholders in respect of the Transaction, the disclosure of which may create unnecessary contact between the public and contracting parties; and

(ii) the Personal Data are of minor importance and the redaction of which will not influence assessment of the Transaction. The material terms stipulated under the Agreement have been summarised and disclosed in this circular, from which the Shareholders and the investing public will be able to have sufficient information and knowledge about the Transaction and assess the impact of the Transaction so that the Shareholders and the investing public would make an informed voting decision on the Transaction. In addition, the Shareholders and the investing public are provided with sufficient information regarding the reasons for and benefits of the Transaction. Therefore, the redacted version of the Agreement is unlikely to mislead investors with regard to the facts and circumstances, knowledge of which is essential for making a properly informed assessment of the Transaction.

Accordingly, only the redacted version of the Agreement will be available for display to the public.

8. GENERAL

(a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is situated at Room 2703, 27/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) The joint company secretaries of the Company are Mr. ZHOU Fangchao and Ms. CHEUNG Ka Lun Karen. Ms. CHEUNG Ka Lun Karen is a chartered secretary, a chartered governance professional and an associate of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

(e) This circular is in both English and Chinese. If there is any inconsistency, the English text shall prevail over the Chinese text for the purpose of interpretation.

GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED
环球新材国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 06616)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Global New Material International Holdings Limited (the "**Company**") will be held at 10 a.m. on Monday, 21 July 2025 at 6th Floor, Guangxi Chesir Pearl Material Co., Ltd., Pearlescent Industrial Park, No. 380, Feilu Road, Luzhai Town, Luzhai County, Liuzhou City, Guangxi, China, for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as an ordinary resolution of the Company. Unless the context requires otherwise, the capitalised terms used in this notice of the EGM and the following ordinary resolution shall have the same meanings as those defined in the circular of the Company dated 25 June 2025 (the "**Circular**").

ORDINARY RESOLUTION

"THAT:

(a) the Agreement, a copy of which is marked "A" and initialled by the chairman of the EGM for identification purpose and tabled at the EGM, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company ("Director") be and is hereby authorised to do all such acts and things (including, but without limitation, signing, executing (whether under hand or under seal), perfecting and delivering all agreements, documents, amendments, variations, waivers or other instruments; and attending all such other acts or matters in the capacity as a Director) which are in his or her sole and absolute opinion, necessary, appropriate, desirable or expedient to implement or give effect to the Transaction, the Agreement and the transactions contemplated thereunder and all other matters incidental thereto or in connection therewith."

By order of the Board
Global New Material International Holdings Limited
SU Ertian
Chairman and Chief Executive Officer

Hong Kong, 25 June 2025

Notes:

(i) The resolutions at the EGM will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the articles of association of the Company and the Listing Rules. The results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.

(ii) Any Shareholder entitled to attend and vote at the EGM is entitled to appoint any number of proxies (who must be individuals) to attend and vote instead of him or her. A proxy need not be a Shareholder. If more than one proxy is appointed, the number of Shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.

(iii) Where there are joint Shareholders, any one of such joint Shareholders may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint Shareholders be present at the EGM personally or by proxy, that one of the said joint Shareholders so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint shareholders stand on the register of members of the Company in respect of the relevant joint shareholding.

(iv) In order to be valid, the form of proxy together with a power of attorney or other authority, under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for the EGM, i.e. before 10 a.m. on Saturday, 19 July 2025, or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude a Shareholder from attending and voting in person at the EGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(v) In determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 16 July 2025 to Monday, 21 July 2025, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, all Share transfer documents accompanied by the relevant Share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 15 July 2025.

As of the date of this notice, the executive Directors are Mr. SU Ertian (Chairman and Chief Executive Officer), Mr. JIN Zengqin, Mr. ZHOU Fangchao, Mr. BAI Zhihuan, Ms. ZENG Zhu and Mr. LIM Kwang Su, the non-executive Director is Mr. HU Yongxiang and the independent non-executive Directors are Mr. HUI Chi Fung, Professor HAN Gaorong, Mr. LEUNG Kwai Wah Alex and Professor CHEN Fadong.