武漢有機控股有限公司

WUHAN YOUJI HOLDINGS LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2881

GLOBAL OFFERING

Sole Sponsor

交銀國際 BOCOM International

Sole Overall Coordinator, Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager

交銀國際 BOCOM International

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Wuhan Youji Holdings Ltd.
武漢有機控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**18,300,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**1,830,000 Shares (subject to reallocation)**
Number of International Offer Shares	**:**	**16,470,000 Shares (subject to reallocation and the Over-allotment Option)**
Maximum Offer Price	**:**	**HK$8.50 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**US$0.0001 per Share**
Stock code	**:**	**2881**

Sole Sponsor, Sole Overall Coordinator, Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager

Joint Bookrunners and Joint Lead Managers

(in alphabetical order)

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix V – Documents Delivered to the Registrar of Companies and Available on Display – Documents Delivered to the Registrar of Companies" in this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). Neither the Securities and Futures Commission of Hong Kong nor the Registrar of Companies in Hong Kong takes any responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Overall Coordinator (for itself and on behalf of the Underwriters) and us on or around Friday, June 14, 2024. The Offer Price will be not more than HK$8.50 per Offer Share and is currently expected to be not less than HK$5.50 per Offer Share. If, for any reason, the Offer Price is not agreed by 12:00 noon on Friday, June 14, 2024, the Global Offering will not proceed and will lapse.

The Sole Overall Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that is stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. For further details, please refer to "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Sponsor and the Sole Overall Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. For further details, please refer to "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may only be offered, sold or delivered outside the United States in an offshore transaction in reliance on Regulation S.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.chinaorganic.com**. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

June 7, 2024

Your application through the **HK eIPO White Form** service or the HKSCC EIPO channel must be for a minimum of 500 Hong Kong Offer Shares and in one of the numbers set out in the table. If you are applying through the **HK eIPO White Form** service, you may refer to the table below for the amount payable for the number of Shares you have selected. You must pay the respective maximum amount payable on application in full upon application for Hong Kong Offer Shares. If you are applying through the HKSCC EIPO channel, you are required to pre-fund your application based on the amount specified by your broker or custodian, as determined based on the applicable laws and regulations in Hong Kong.

No. of Hong Kong Offer Shares applied for	Maximum amount payable(2) on application/ successful allotment	No. of Hong Kong Offer Shares applied for	Maximum amount payable(2) on application/ successful allotment	No. of Hong Kong Offer Shares applied for	Maximum amount payable(2) on application/ successful allotment	No. of Hong Kong Offer Shares applied for	Maximum amount payable(2) on application/ successful allotment
	HK$		*HK$*		*HK$*		*HK$*
500	4,292.86	7,000	60,100.06	50,000	429,286.13	400,000	3,434,289.00
1,000	8,585.72	8,000	68,685.78	60,000	515,143.36	450,000	3,863,575.13
1,500	12,878.58	9,000	77,271.50	70,000	601,000.58	500,000	4,292,861.26
2,000	17,171.45	10,000	85,857.23	80,000	686,857.80	600,000	5,151,433.50
2,500	21,464.30	15,000	128,785.83	90,000	772,715.03	700,000	6,010,005.76
3,000	25,757.17	20,000	171,714.46	100,000	858,572.26	800,000	6,868,578.00
3,500	30,050.02	25,000	214,643.07	150,000	1,287,858.38	915,000(1)	7,855,936.09
4,000	34,342.89	30,000	257,571.68	200,000	1,717,144.50		
4,500	38,635.75	35,000	300,500.29	250,000	2,146,430.63		
5,000	42,928.61	40,000	343,428.90	300,000	2,575,716.76		
6,000	51,514.34	45,000	386,357.51	350,000	3,005,002.88		

(1) Maximum number of Hong Kong Offer Shares you may apply for and this is 50% of the Hong Kong Offer Shares initially offered.

(2) The amount payable is inclusive of brokerage, SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy. If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules) or to the **HK eIPO White Form** Service Provider (for applications made through the application channel of the **HK eIPO White Form** Service Provider) while the SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy will be paid to the SFC, the Stock Exchange and the AFRC, respectively.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

If there is any change in the following expected timetable of the Global Offering, we will issue an announcement in Hong Kong to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.chinaorganic.com.

Time and date*(Note 1)*

Hong Kong Public Offering commences . . . . 9:00 a.m. on Friday, June 7, 2024

Latest time for completing electronic applications under the **HK eIPO White Form** service through
(1) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
(2) the designated website **www.hkeipo.hk***(Note 2)* . . . . 11.30 a.m. on Thursday, June 13, 2024

Application lists open*(Note 3)* . . . . 11:45 a.m. on Thursday, June 13, 2024

Latest time for (a) completing payment for **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving **electronic application instructions** to HKSCC*(Note 4)* . . . . 12:00 noon on Thursday, June 13, 2024

If you are instructing your **broker** or **custodian** who is a HKSCC Participant to give **electronic application instructions** via HKSCC's FINI System to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close*(Note 3)* . . . . 12:00 noon on Thursday, June 13, 2024

Expected Price Determination Date*(Note 5)* . . . . Friday, June 14, 2024

Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares at the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.chinaorganic.com** on or before . . . . Monday, June 17, 2024

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares – B. Publication of Results" in this prospectus . . . . Monday, June 17, 2024

	Time and date(Note 1)
• Results of allocations in the Hong Kong Public Offering will be available at the "IPO Results" function in the **IPO App** or at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID" function from	Monday, June 17, 2024
Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before*(Note 7)(Note 9)*	Monday, June 17, 2024
e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) or wholly or partially unsuccessful applications to be despatched on or before*(Note 8)(Note 9)*	Tuesday, June 18, 2024
Dealings in the Shares on the Stock Exchange to commence at 9:00 a.m. on	Tuesday, June 18, 2024

Notes:

1. All dates and times refer to Hong Kong local dates and time, except as otherwise stated.

2. You will not be permitted to submit your application under the **HK eIPO White Form** service through the **IPO App** or the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the **IPO App** or the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 13, 2024, the application lists will not open or close on that day. Please refer to "How to Apply for the Hong Kong Offer Shares – E. Severe Weather Arrangements" in this prospectus.

4. Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via HKSCC's FINI system or instructing your **broker** or **custodian** to apply on your behalf via HKSCC's FINI system should refer to "How to Apply for the Hong Kong Offer Shares – A. Application for Hong Kong Offer Shares – 2. Application Channels" in this prospectus.

5. The Price Determination Date is expected to be on or around Friday, June 14, 2024. If, for any reason, the Offer Price is not agreed between the Sole Overall Coordinator (for itself and on behalf of the Underwriters) and our Company by 12:00 noon on Friday, June 14, 2024, the Global Offering will not proceed and will lapse.

6. None of the websites set out in this section or any of the information contained on the websites forms part of this prospectus.

7. Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.

8. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.

9. Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to the bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques in favour of the applicant (or, in the case of joint applications, the first-named applicant) by ordinary post at their own risk.

   For further information, please refer to "How to Apply for the Hong Kong Offer Shares – D. Despatch/collection of Share certificates and refund of application monies" in this prospectus.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, please refer to "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus, respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such case, we will make an announcement as soon as practicable thereafter.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents, or representatives or any other person or party involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you, and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks associated with investing in the Offer Shares are set out in "Risk Factors." You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a renowned toluene derivative products provider in the PRC and the global market, primarily focusing on the manufacture of toluene oxidation and chlorination products, benzoic acid ammonification products and other fine chemical products through organic synthesis process. Our toluene derivative products are primarily used for food preservatives, household chemicals, animal feed acidifier and synthetic intermediates for agrochemical and pharmaceutical uses. Leveraging our PRC-based product development and manufacturing capabilities, we market and sell our products in over 70 countries. Under the leadership of our experienced management team, we will continue to leverage our product development and manufacturing capabilities and global sales network to increase our market shares and strengthen our industry position in China and globally.

Our leading position in toluene oxidation and toluene chlorination products is substantiated by our industry ranking and market share in the PRC and the global market. According to the Frost & Sullivan Report, our Group ranked as the largest manufacturer for both benzoic acid and sodium benzoate and the second largest benzyl alcohol manufacturer in the PRC in terms of the sales revenue in 2023, representing 62.0%, 37.9% and 33.9% of the PRC total market revenue in 2023, respectively. In the global market, we ranked second place among manufacturers for benzoic acid and sodium benzoate and third place among manufacturers for benzyl alcohol in 2023, accounting for 37.0%, 22.4% and 20.6% of the global total market revenue in 2023, respectively.

As of the Latest Practicable Date, we had a self-produced product portfolio primarily consisting of five toluene oxidation products, two toluene chlorination products, two benzoic acid ammonification products and more than 20 types of other fine chemical products for broad market uses. In 2021, 2022 and 2023, we recorded sales volume of approximately 362,302 tons, 375,848 tons and 346,147 tons of products, respectively. Our products are widely recognized around the world. We are the contracted supplier of many renowned global companies, including a number of Fortune 500 companies and regional industry participants. We have established long-term business relationships with these companies, which enable our customers to procure products at competitive prices while providing us with a solid customer base. Sales to our Fortune 500 customers contributed approximately 7.6%, 8.5% and 10.5% of our total revenue for the years ended December 31, 2021, 2022 and 2023. While our existing products enjoy broad market appeal and use, we strive to maintain our competitive advantages by allocating additional resources to product development to ensure a growing portfolio of products to our customers.

For the years ended December 31, 2021, 2022 and 2023, we generated revenue of RMB2,789.5 million, RMB3,133.8 million and RMB2,677.1 million, respectively, and generated RMB309.1 million, RMB340.5 million and RMB72.9 million, respectively, in net profits for the corresponding periods. The following table sets forth the revenue and percentage of total revenue by business segments during the Track Record Period:

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
Revenue from self-produced products	**2,213,551**	**79.4**	**2,721,500**	**86.8**	**2,221,064**	**83.0**
Toluene oxidation products	*1,311,522*	*47.0*	*1,555,182*	*49.6*	*1,356,387*	*50.7*
– benzoic acid	752,321	27.0	910,379	29.0	784,461	29.3
– sodium benzoate	451,129	16.2	543,084	17.3	437,519	16.3
– others	108,072	3.8	101,719	3.3	134,407	5.1
Toluene chlorination products	*487,513*	*17.5*	*831,305*	*26.5*	*587,599*	*21.9*
– benzyl chloride	124,810	4.5	189,440	6.0	124,841	4.7
– benzyl alcohol	362,703	13.0	641,865	20.5	462,758	17.2
Benzoic acid ammonification products	*237,010*	*8.5*	*130,392*	*4.2*	*116,250*	*4.3*
– benzonitrile	48,319	1.7	27,180	0.9	39,538	1.5
– benzoguanamine	188,691	6.8	103,212	3.3	76,712	2.8
Other fine chemical products	*177,506*	*6.4*	*204,621*	*6.5*	*160,828*	*6.1*
Revenue from products trading	**575,926**	**20.6**	**412,336**	**13.2**	**456,039**	**17.0**
Toluene product trading	541,042	19.4	360,815	11.6	320,085	12.0
Other products trading	34,884	1.2	51,521	1.6	135,954	5.0
Total	**2,789,477**	**100.0**	**3,133,836**	**100.0**	**2,677,103**	**100.0**

Sales of self-produced products. Our revenue was primarily generated from sales of our self-produced products, which include revenues from toluene oxidation product sales, toluene chlorination product sales, benzoic acid ammonification product sales and other fine chemical product sales. Revenue contribution from sales of self-produced products accounted for 79.4%, 86.8% and 83.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. Our total revenue decreased by 14.6% from RMB3,133.8 million in 2022 to RMB2,677.1 million in 2023 due the general decline in market demands for our products coupled with the increase in market supply of toluene oxidation products, resulting in the drop in both sales volume and average selling price of our products. For detailed analysis on the fluctuations of the revenue and gross profit margin of our business operation in 2023, please refer to "— Our Business Operating Data" and "Financial Information — Discussion of Results of Operations" in this prospectus.

Products trading. We engage in products trading to supplement our primary production operations and sales. We categorize our products trading by toluene product trading and other products trading. Revenue contribution from products trading accounted for 20.6%, 13.2% and 17.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. Our revenue generated from products trading decreased by 28.4% from RMB575.9 million in 2021 to RMB412.3 million in 2022 as a result of the decrease in trading volume of petroleum toluene from approximately 112,272 tons to 54,823 tons in the corresponding years. This decrease in sales volume and overall revenue was due to our increased internal demand for petroleum toluene for our production needs and market fluctuations in 2022. The trading volume of petroleum toluene further decreased to 49,295 tons in 2023 primarily due to the reduction in our procurement in light of the unfavorable market sentiment in the chemical industry which in turn reduces the volume of petroleum toluene available for trading.

Following the implementation of our future plans and completion of the Global Offering, our Directors believe that we will continue to maintain our market ranking in toluene oxidation and toluene chlorination products and successfully expand our business operations in the toluene derivative products industry in the PRC and the global market. We believe that we are well-positioned to explore opportunities in the larger organic synthetic chemical market with our competitive strengths, existing capabilities and strategic planning.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths have allowed us to establish our market position and contributed to our success: (i) we are a market leading and top-ranked manufacturer for the production of toluene oxidation and toluene chlorination products for a variety of use in domestic and industrial applications; (ii) our brand and reputation are propelled by our rich and diverse portfolio of products strategically designed for our four primary industries, namely (a) food preservatives, (b) household chemicals, (c) animal feed acidifier and (d) synthetic intermediates for agrochemical and pharmaceutical use; (iii) our cost-efficient manufacturing process and refined manufacturing equipment are driven by our advanced research and development capabilities; (iv) our leading market position is elevated by our extensive distribution network for our products; (v) our continuing and sustainable commercial success are based on our strong and cohesive customer base; and (vi) our experienced management team with proven track records provides exemplary leadership to guide our growth.

OUR BUSINESS STRATEGIES

We aim to achieve sustainable growth in our production capacity and enhance our market position by implementing the following strategies: (i) continue to expand our production capacity to sustain our long-term economy of scale and profitability; (ii) timely respond to changes in market circumstances by adjusting sales and pricing strategies; (iii) further increase our domestic and international market shares by forming in-depth cooperations with established market participants; (iv) further enhance our research and development capabilities to develop high value products; and (v) expand our sales and marketing network in the global market.

OUR BUSINESS OPERATING DATA

The following table sets forth the average sales price ("**ASP**"), sales volume and gross profit margin of our products for the periods indicated:

	Year ended December 31,								
	2021			2022			2023		
	ASP	Sales volume	Gross profit margin	ASP	Sales volume	Gross profit margin	ASP	Sales volume	Gross profit margin
	RMB per ton	*tons*		*RMB per ton*	*tons*		*RMB per ton*	*tons*	
Sale of self-produced products	**8,909**	**248,462**	**28.7%**	**8,536**	**318,818**	**24.3%**	**7,957**	**279,147**	**14.1%**
Toluene oxidation products	*8,145*	*161,028*	*29.6%*	*9,150*	*169,962*	*20.0%*	*8,267*	*164,071*(1)	*10.0%*
– benzoic acid	7,288	103,224	32.0%	8,053	113,050	17.2%	7,367	106,487	7.6%
– sodium benzoate	9,600	46,994	29.2%	11,002	49,361	23.5%	9,670	45,245	14.0%
– others	9,997	10,810	14.7%	13,470	7,551	25.9%	10,893	12,339	10.6%
Toluene chlorination products	*9,519*	*51,217*	*18.7%*	*13,411*	*61,988*	*27.5%*	*11,235*	*52,299*	*19.5%*
– benzyl chloride	6,784	18,398	21.7%	9,508	19,924	31.9%	7,870	15,863	23.6%
– benzyl alcohol	11,052	32,819	17.6%	15,260	42,064	26.3%	12,701	36,436	18.4%
Benzoic acid ammonification products	*29,920*	*7,921*	*54.6%*	*28,232*	*4,619*	*52.5%*	*17,415*	*6,675*	*32.2%*
– benzonitrile	15,371	3,143	42.4%	18,540	1,467	43.2%	14,995	2,637	29.3%
– benzoguanamine	39,493	4,778	57.8%	32,738	3,152	54.9%	18,995	4,038	33.7%
Other fine chemical products	*6,273*	*28,296*	*15.1%*	*2,488*	*82,249*	*26.0%*	*2,867*	*56,102*	*16.5%*
Sale of products trading	**5,059**	**113,840**	**0.6%**	**7,230**	**57,030**	**9.2%**	**6,807**	**67,000**	**3.5%**
Toluene product trading	4,819	112,272	(0.5)%	6,581	54,823	6.9%	6,493	49,295	3.8%
Other products trading	22,253	1,568	18.1%	23,344	2,207	25.2%	7,679	17,705	2.8%
Total		**362,302**			**375,848**			**346,147**	

Note:

(1) Including sales volume of products processed by Hebei Kangshi under the entrusted processing service arrangement.

The ASPs of our self-produced products decreased from RMB8,909 per ton in 2021 to RMB8,536 per ton in 2022, and further decreased to RMB7,957 per ton in 2023. The ASPs of our self-produced products are primarily affected by the price fluctuation of raw materials, and petroleum toluene, in particular, as our major raw material used. In addition, we also adjust our pricing strategy based on market demands and supplies. In light of the weak chemical market sentiment and the weak downstream demand in 2023, we lowered our ASPs for our self-produced products to ensure our market competitiveness and maintain our market position and the utilization rate of our production facilities at an optimal level. If the market experiences excessive demands, we would raise our ASPs, and vice versa.

We recorded significant increase in the sales volume of our self-produced products from approximately 248,462 tons in 2021 to 318,818 tons in 2022. In particular, sales volume of benzoic acid increased from approximately 103,224 tons in 2021 to 113,050 tons in 2022. The increase in sales volume of benzoic acid were primarily due to a ban on the use of antibiotics in animal feed additive implemented by the PRC government in July 2020, where benzoic acid is a viable replacement for antibiotics, and our Company is one of the few manufacturers capable of producing the qualified feed-level benzoic acid in the PRC market. We experienced a decrease in sales volume in 2023 to 279,147 tons primarily due to the unfavorable economic environment in the PRC and globally. Our customers, mainly in food additives, feed additives, pesticide intermediate market, and pharmaceutical intermediate market, were adversely impacted. Many of them have been lowering their production and inventory levels in light of the economic uncertainty, which consequentially reduces their demand for our products and therefore the sales volume of our products.

Our gross profit margin for sales of self-produced products decreased from 28.7% in 2021 to 24.3% in 2022, and further decreased to 14.1% in 2023. The gross profit margin of our products may fluctuate in tune with market supply and demand. In particular, the decrease in gross profit margin in 2022 and 2023 is mainly attributed to the decrease in margin of our toluene oxidation products, from 29.6% in 2021 to 20.0% in 2022 due to the increase in raw material costs of petroleum toluene from approximately RMB4,973 per ton in 2021 to RMB6,710 per ton in 2022 was not fully transferred to our customers, and further to 10.0% in 2023 due to the decrease in downstream demands amid economic uncertainty and the increase in market supply which intensified market competition. The gross profit margin of our toluene chlorination products also decreased from 27.5% in 2022 to 19.5% in 2023 amid economic uncertainty which reduces downstream demand.

The significant decrease in gross profit margin in 2023 was mainly attributed to the decrease in average selling price. On the demand side, there was a contraction in downstream customer demand amid the unfavourable economic environment and weak consumer sentiment. On the supply side, several industry participants increased their production capacity in toluene oxidation products in 2023 which caused the increase in market supply. These circumstances exerted significant pressure on our pricing. Such market circumstances was completely opposite to the market position in the first half of 2022 where the demand was higher than the supply and put the chemical manufacturers in a good market position. Therefore, to react to the above mentioned difficult market condition in 2023, we adjusted our business strategy and lowered the selling prices of our products in order to effectively compete with our competitors for the smaller number of available sales orders in the market so as to maintain our market position and the utilization rate of our production facilities at an optimal level. For detailed analysis, please refer to "Business — Business Developments in 2023" and "Financial Information — Discussion of Results of Operations" in this prospectus. Our foremost business strategy in 2023 was to maintain our market share and the utilization rate of our production facilities at an optimal level in light of the market circumstances, as compared to 2022 which the primary focus was on maintaining an optimal gross profit margin.

We also engaged in products trading during the Track Record Period, which complements our self-produced products sales and enhances customers cohesiveness for our business operation by providing customers with various trading products. Trading volume during the Track Record Period decreased from approximately 113,840 tons in 2021 to 57,030 tons in 2022, and increased to 67,000 tons in 2023. We recorded minimal gross profit margin of 0.6% for our products trading in 2021, primarily due to the relative stable petroleum toluene price in the corresponding year. We recorded higher gross profits from products trading in 2022 and 2023 because we resold our surplus petroleum toluene at a higher price compared to our purchase price. When our raw material inventory meets or exceeds the requirements for our production, we may engage in toluene product trading business to sell our surplus inventory by obtaining information and tracking market opportunities on the Independent Commodity Intelligence Services to improve our cash-flow position.

We conduct products trading primarily to maintain a stable and sufficient supply of raw materials for our manufacturing, and it also helps us to enhance and develop our relationship with clients and to better manage our inventories in raw materials. Therefore, despite fluctuating profit margins, we anticipate greater business advantages in the long run and will continue to engage in products trading. During the Track Record Period and up to the Latest Practicable Date, products trading of our Group were all conducted through direct sales.

For the detailed analysis on the fluctuations of the sales volume and gross profit margin of our main products under our business segments of self-produced products sales and products trading during the Track Record Period, please refer to "Financial Information — Description of Key Statement of Profit or Loss Items" in this prospectus.

OUR CONTROLLING SHAREHOLDERS

As of the date of this prospectus, Mr. Gao, through his wholly-owned investment holding vehicle Vastocean Capital Limited, holds 66.86% of the issued shares capital of our Company. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Gao will, indirectly and beneficially, be entitled to exercise 53.75% of the voting power at general meetings of our Company. Accordingly, upon Listing, Mr. Gao and Vastocean Capital Limited will constitute a group of controlling shareholders of our Company under the Listing Rules. For details, please refer to "Relationship with our Controlling Shareholders" in this prospectus.

SALES AND CUSTOMERS

We have a dedicated sales team responsible for the overall management of our sales and marketing activities. Our sales team is responsible for business development, product delivery liaison and post-sales services under our direct sales model. In addition, our sales team is also responsible for maintaining regular contact with our distributors as well as coordinating with manufacturers and trading companies for our products trading business. Our sales team leaders report to the directors of their respective sales division, who then report to our president.

Our products are sold by means of direct sales channel and distribution sales channel. The extensive coverage of our well-rounded distribution network in the PRC and global market enables us to reach a broader customer base. The table below sets out the breakdown of our sales by channels during the Track Record Period:

	Year ended December 31,								
	2021			2022			2023		
	RMB'000	*% of revenue*	*Gross profit margin*	*RMB'000*	*% of revenue*	*Gross profit margin*	*RMB'000*	*% of total revenue*	*Gross profit margin*
Direct sales channel									
– Direct sales	1,224,453	43.9	30.0%	1,624,669	51.8	26.0%	1,226,480	45.8	14.9%
– Products trading	575,926	20.6	0.6%	412,336	13.2	9.2%	456,039	17.0	3.5%
Distribution sales channel									
– Distribution sales	989,098	35.5	26.9%	1,096,831	35.0	21.8%	994,584	37.2	13.2%
Total	**2,789,477**	**100.0**	**22.9%**	**3,133,836**	**100.0**	**22.3%**	**2,677,103**	**100.0**	**12.3%**

The gross profit margin of our direct sales and distribution sales decreased to 26.0% and 21.8%, respectively, in 2022, which was primarily due to the market-oriented pricing policy we adopted in 2022 for our toluene oxidation products. In the same year, the gross profit margin of products trading increased significantly to 9.2%, which was mainly because we had been able to capture the favourable market price trend in the first half of 2022 in selling the surplus products at a higher price.

The overall decrease in gross profit margin in 2023 as compared with that of 2022 was primarily due to the decrease in margin of our toluene oxidation products and toluene chlorination products from 20.0% and 27.5% in 2022 to 10.0% and 19.5% in 2023. The decreases in 2023 were due to the decrease in downstream demands as many downstream industry customers tend to lower their inventory level or slow down their inventory replenishment amid economic uncertainty and the increase in market supply of toluene oxidation products which intensified market competition, which exerted significant pressure on our pricing. We also strategically lowered our sales prices so as to maintain the utilization of our production plant and to enhance our market position. For details, please refer to "Business — Business Developments in 2023" and "Business — Our Strategies" in this prospectus.

As of December 31, 2023, we sold our products in the PRC and more than 70 other countries in the global market. The table below sets forth an analysis of our revenue by customer location for the periods indicated:

	Year ended December 31,								
	2021			2022			2023		
	RMB'000	*% of revenue*	*Gross profit margin*	*RMB'000*	*% of revenue*	*Gross profit margin*	*RMB'000*	*% of total revenue*	*Gross profit margin*
Mainland China	2,171,112	77.8	21.4%	2,452,017	78.2	20.7%	2,060,003	76.9	10.8%
Asia (except Mainland China)	262,513	9.4	28.1%	308,110	9.8	28.7%	287,508	10.7	19.8%
The Americas	212,821	7.6	32.3%	159,116	5.1	33.2%	135,882	5.1	18.1%
Europe	119,477	4.3	22.2%	185,654	5.9	23.6%	175,848	6.6	13.0%
Other countries/regions	23,554	0.9	23.7%	28,939	1.0	23.2%	17,862	0.7	10.1%
Total	**2,789,477**	**100.0**	**22.9%**	**3,133,836**	**100.0**	**22.3%**	**2,677,103**	**100.0**	**12.3%**

During the Track Record Period, our gross profit margin in mainland China slightly decreased from 21.4% in 2021 to 20.7% in 2022 primarily due to our adoption of a pricing strategy to sell our toluene oxidation products at a relatively lower price in light of the market competition and to gain market share in 2022. Our gross profit margin in mainland China further decreased to 10.8% in 2023, which was primarily due to the decrease in margin of our toluene oxidation products and toluene chlorination products from 20.0% and 27.5% in 2022 to 10.0% and 19.5% in 2023 due to the decrease in downstream demands as many downstream industry customers tend to lower their inventory level or slow down their inventory replenishment amid economic uncertainty and we adopted a pricing strategy to sell our products at a relatively lower price to maintain our market share in light of the unfavourable industry environment and to cope with the intensified market competition resulted from the increase in market supply of toluene oxidation products. For details of our strategy in response to the changes in market circumstances, please refer to "Business — Our Strategies — Timely respond to changes in market circumstances by adjusting sales and pricing strategies" in this prospectus.

Our gross profit margin in the overseas markets remained relatively stable from 2021 to 2022. Our gross profit margin in the overseas markets experienced an overall decrease in 2023 due to the downward trend in the overseas market demands for the same reasons as for domestic sales as well as higher inventory purchased by the overseas customers in 2022 in light of the then transportation restriction amid COVID-19 related measures in the PRC. In addition, we adopted a pricing strategy to sell our products at a relatively lower price to maintain our market share in light of the unfavourable industry environment and to cope with the intensified market competition resulted from the increase in market supply of toluene oxidation products.

PROCUREMENT AND SUPPLIERS

The principal raw materials for our production are chemicals, including petroleum toluene, sodium hydroxide, chlorine and sodium carbonate, which we purchase from our suppliers. We also source various other types of materials and equipment from our suppliers, such as additives, solvents, pumps, distillation towers, reaction kettles, storage tanks and packaging materials. Our customers usually do not designate suppliers for raw materials and equipment.

We have established a comprehensive procurement management system as well as the associated procurement policies. The warehouse management department draws up the procurement plan for raw materials and packaging materials according to the production plan issued by the production department according to the actual stock levels; the functional departments of each workshop draw up the procurement plan for regular materials according to the actual needs. The supply department is responsible for generating purchase orders based on the procurement plan and placing them with the suppliers effectively. For equipment and other materials, we conduct procurement after receiving procurement requests from relevant departments.

Except for certain bulk materials, such as petroleum toluene, we have multiple sources for our raw materials to reduce possible interruptions to our business operations and over-reliance on any individual supplier. We closely monitor the supply and demand conditions of raw materials and make corresponding adjustments in our procurement plan if there is any anticipated shortage of supply or price changes. During the Track Record Period, we did not experience any difficulty in sourcing suppliers for raw materials or any material production disruption due to shortage of raw materials.

Purchases with our suppliers are generally made by individual purchase orders with reference to our production plans and demand for our products. For certain bulk material suppliers, we sign annual framework agreements with these suppliers to specify the quantity and tentative price of raw materials to be supplied throughout the year. We include in our purchase orders for raw materials the product specifications, quantity and quality, payment terms, delivery schedules and liability for breach of contract. Our purchase orders for equipment also include additional terms such as warranty and intellectual property rights. We did not entered into long-term sales and purchase agreements with our suppliers during the Track Record Period, as our Directors believe that it is an industry practice for maintaining flexibility both in terms of the purchase quantity and price. During the Track Record Period and up to the Latest Practicable Date, we did not adopt any hedging policies for the fluctuations in the prices of raw materials and products.

PRODUCTION PLANTS AND EXPANSION PLAN

During the Track Record Period, we had two production plants in operation through our wholly-owned subsidiaries, namely our Wuhan Production Plant and Qianjiang Xinyihong Production Plant, with an aggregate site area of 326,618.9 sq.m. and an aggregate gross floor area of 78,256.0 sq.m., located in Wuhan and Qianjiang, Hubei Province. Each of our production plants is designed for the production of designated products with built-in flexibility.

Current Production Capacity and Utilization Rate

The following table sets forth the designed production capacity, actual production volume and utilization rate of our manufacturing facilities at our Wuhan Production Plant and Qianjiang Xinyihong Production Plant during the Track Record Period:

	Year ended December 31,		
	2021	**2022**	**2023**
Wuhan Production Plant			
Designed Production Capacity(1) (tons)	302,500	302,500	302,500
Actual Production Volume(2) (tons)	309,683	371,579	314,679
Utilization Rate(3)	102.4%	122.8%	104.0%
Qianjiang Xinyihong Production Plant			
Designed Production Capacity(1) (tons)	144,040	144,040	144,040
Actual Production Volume(2) (tons)	132,190	132,050	124,414
Utilization Rate(3)	91.8%	91.7%	86.4%

Notes:

(1) The designed production capacity figures are calculated based on a number of assumptions, including the operation hours. The figures for the years ended December 31, 2021, 2022 and 2023 are based on the assumption that each production plant operates approximately 8,000 hours per year (i.e., 330 days per year). The designed production capacity is calculated with reference to (i) the annual production capacity of our Group's production equipment as designated by the equipment manufacturers and (ii) the registration documents our Group filed with the PRC authorities for our production facilities.

(2) Actual production is the actual number of products manufactured by our Group for the indicated period, including self-produced products and those used as raw material for other self-produced products. As certain portion of self-produced products was used as raw materials for the manufacturing of our Group's other self-produced products, our Group's production volume may exceed the sales volume of our self-produced products during the Track Record Period.

(3) Our actual production volume may exceed the designed production capacity, which leads to utilization rates exceeding 100% due to (i) certain self-produced products manufactured by our Group can be sold as a final product or can be further refined for the production of refined products of the same category, and (ii) technical improvements we adopted in our manufacturing process which enable our actual production volume to exceed certain designed production capacity. According to our PRC Legal Advisors, only production volume of the end products is relevant for the assessment of our compliance with the production volume limit approved in the relevant registration documents that filed with the PRC authorities, but not the production volume used in the calculation of the utilisation rate. Therefore, provided that the production volume of the end products during the Track Record Period is within the production volume limit approved in the relevant registration documents that filed with the PRC authorities, our manufacturing operation complies with the relevant laws and regulations in the PRC. According to Frost & Sullivan, based on public information disclosed by listed companies, it is a common situation for manufacturing companies to operate with a utilization rate exceeding 100%.

In addition, our joint venture, Hebei Kangshi also operates the Hebei Kangshi Production Plant. It has a designed production capacity of 79,000 tons per year and commenced production in January 2023. We entered into an entrusted processing service agreement with Hebei Kangshi in September 2023. For details, please refer to “Business — Business Cooperation with Major Market Participants — Cooperation with SINOPEC — Hebei Kangshi Production Plant” in this prospectus.

Production Expansion Plan

The following table sets forth certain information regarding our planned production facilities, including those that are currently under development:

Production facility	Phase	Actual construction date	Expected capital expenditure[1] use of proceeds	Expected capital expenditure[1] internal resources	Expected payback years since production[2]
			(RMB'million)		
Hubei Xinxuanhong Production Plant	Phase I	July 2023	11.9	188.1	3
	Phase II	N/A[3]	27.8	522.2	6.9
Total			**39.7**	**710.3**	

Notes:

(1) expected to be financed by a combination of IPO proceeds and internal resources, and is expected to be incurred throughout the construction period up to 2029. As of December 31, 2023, we had incurred capital expenditures of RMB55.1 million for the construction of Hubei Xinxuanhong Production Plant.

(2) derived from the feasibility study report for the respective production plant, which was primarily calculated by the estimated total investment amount divided by the expected annual profit.

(3) The Phase II construction is expected to commence in the second half of 2025.

Designed annual production capacity for major products before and after production expansion plan

During the Track Record Period, we operated two production plants: our Wuhan Production Plant and Qianjiang Xinyihong Production Plant and our joint venture operated the Hebei Kangshi Production Plant. We also plan to expand our production capacity through the establishment of Hubei Xinxuanhong Production Plant. The following table sets forth the designed annual production capacity of the production facilities operated by our subsidiaries for our major products before and after our production expansion plan:

	As of December 31, 2023		After Completion of Production Expansion Plan		
	Wuhan Production Plant(2)	Qianjiang Xinyihong Production Plant(2)	Wuhan Production Plant(2)	Qianjiang Xinyihong Production Plant(2)	Hubei Xinxuanhong Production Plant(3)
	(tons)		*(tons)*		
Toluene oxidation products					
– benzoic acid	200,000	–	200,000	–	–
– sodium benzoate	65,000	–	65,000	–	–
– others	12,000	–	12,000	–	–
Toluene chlorination products					
– benzyl chloride	–	74,000	–	74,000	100,000
– benzyl alcohol	–	60,000	–	60,000	50,000
Benzoic acid ammonification products					
– benzonitrile	10,000	–	10,000	–	–
– benzoguanamine	5,000	–	5,000	–	–
Other fine chemical products	10,500	10,040	10,500	10,040	150,000
Designed Annual Production Capacity(1)	**302,500**	**144,040**	**302,500**	**144,040**	**300,000**

In addition, as at the Latest Practicable Date, our joint venture operated the Hebei Kangshi Production Plant, which has a designed annual production capacity which mainly include approximately 60,000 tons of industrial-grade benzoic acid, 15,000 tons of sodium benzoate, 2,000 tons of benzaldehyde and 2,000 tons of benzyl benzoate. The Hebei Kangshi Production Plant commenced production in January 2023. We entered into an entrusted processing service agreement with Hebei Kangshi in September 2023. For details, please refer to "Business — Business Cooperation with Major Market Participants — Cooperation with SINOPEC — Hebei Kangshi Production Plant" in this prospectus.

Notes:

(1) The designed annual production capacity figures are calculated based on a number of assumptions, including the assumption that each production plant operates approximately 8,000 hours per year.

(2) The Wuhan Production Plant and the Qianjiang Xinyihong Production Plant are not part of our "Production Expansion Plan".

(3) The designed production mainly includes toluene chlorination products and other fine chemical products. The Hubei Xinxuanhong Production Plant will be developed in phases up to 2029. The Phase I production is expected to begin in the second half of 2024 with a designed production capacity of 40,000 tons, and the Phase II production is expected to commence in the second half of 2026 with the remaining production capacity being developed and put into use in stages up to 2029.

For details, please refer to "Business — Production Expansion Plan" in this prospectus.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

Selected Information on Our Consolidated Statements of Profit or Loss

The table below presents a summary of our consolidated statement of profit or loss and other comprehensive income for the periods indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	2,789,477	3,133,836	2,677,103
Cost of sales	(2,150,355)	(2,434,558)	(2,347,338)
Gross profit	**639,122**	**699,278**	**329,765**
Selling and distribution expenses	(19,820)	(24,009)	(20,717)
Administrative expenses	(100,457)	(116,498)	(95,416)
Research and development expenses	(110,831)	(133,001)	(99,959)
Profit before tax	**393,536**	**427,690**	**94,738**
Profit for the year	**309,137**	**340,470**	**72,902**

Our total revenue increased by 12.3% from RMB2,789.5 million in 2021 to RMB3,133.8 million in 2022, primarily due to the increase in average sales price and sales volume of our toluene oxidation and chlorination products, and partially offset by the decrease in average sales price and sales volume of our benzoic acid ammonification products and the decrease in sales volume of toluene trading products. In particular, the sales volume of our toluene chlorination products increased by 21.0% from 51,217 tons in 2021 to 61,988 tons in 2022 as a result of the market supply shortages. The total sales volume of our products increased from approximately 362,302 tons to 375,848 tons in 2021 and 2022, respectively.

Our total revenue decreased by 14.6% from RMB3,133.8 million in 2022 to RMB2,677.1 million in 2023, primarily due to the decrease in downstream demand amid the unfavorable economic environment in the PRC and globally. We lowered the selling prices of our products in order to effectively compete with our competitors for the smaller number of available sales orders so as to maintain our market position and the utilization rate of our production facilities at an optimal level and to keep our market share. Our revenue was therefore adversely affected during the period. The total sales volume of our products decreased from approximately 375,848 tons in 2022 to 346,147 tons in 2023 and the average selling price of our self-produced products also dropped from RMB8,536 per ton to RMB7,957 per ton in the corresponding periods resulting in a decrease in revenue in 2023.

During the Track Record Period, we incurred cost of sales of RMB2,150.4 million, RMB2,434.6 million and RMB2,347.3 million in 2021, 2022 and 2023, respectively. Our cost of sales increased by 13.2% from RMB2,150.4 million in 2021 to RMB2,434.6 million in 2022 primarily due to the increase in total sales volume from approximately 362,302 tons to 375,848 tons in the corresponding years. Our cost of sales decreased by 3.6% from RMB2,434.6 million in 2022 to RMB2,347.3 million in 2023, as a result of the decrease in total sales volume of our self-produced products from approximately 318,818 tons to 279,147 tons and toluene product trading from approximately 54,823 tons to 49,295 tons for the corresponding periods. In addition, the average unit price of petroleum toluene, our primary raw materials, increased from approximately RMB4,973 per ton in 2021 to RMB6,710 per ton in 2022, and slightly decreased to RMB6,654 per ton in 2023. As confirmed by Frost & Sullivan, the average unit price of the primary raw material of toluene and toluene-derived chemical products may be affected and fluctuate correspondingly with the macro-environment of global politics and economy. Generally, an increase/decrease in average unit price of petroleum may result in an increase/decrease in average unit price of petroleum toluene, the primary raw material of our products, and further leads to an increase/decrease in the sales price of our self-produced products.

During the Track Record Period, we generated net profits of RMB309.1 million, RMB340.5 million and RMB72.9 million in 2021, 2022 and 2023, respectively, which demonstrate our business's profitability. Our net profit increased by 10.1% from RMB309.1 million in 2021 to RMB340.5 million in 2022, primarily due to the increase in gross profit by 9.4% from RMB639.1 million to RMB699.3 million in the corresponding years that mainly resulting from the increase in gross profit of our toluene chlorination products, primarily due to the decrease in overall market supply caused by a PRC manufacturer's termination of toluene chlorination production. As a market leader, our ability to supply these products increased our market bargaining power and enabled our growth in net profit in 2022 and offset, the decrease in gross profit of toluene oxidation products and benzoic acid ammonification products resulting from the increase in average unit cost. Our net profit decreased by 78.6% from RMB340.5 million to RMB72.9 million in 2023, primarily due to the decreased gross profit in 2023 by RMB369.5 million which resulted from the decrease in downstream market demands and the intensified market competition and our strategic move to sell our products at a lower price in order to maintain our market position and the utilization rate of our production facilities as explained above and partially offset by the decrease in income tax of RMB65.4 million. Please refer to "Business — Our Strategies — Timely respond to changes in market circumstances by adjusting sales and pricing strategies" and "Business — Market Developments in 2023" in this prospectus for details of the changes in market circumstances and our responses.

Selected Information on Our Consolidated Statements of Financial Position

The table below sets forth the major items of our consolidated statements of financial position as of the dates indicated:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Total non-current assets	1,182,574	1,292,451	1,283,308
Total current assets	1,753,796	864,887	832,574
Total current liabilities	1,228,303	1,218,688	1,422,654
Total non-current liabilities	187,749	212,543	163,611
Net current assets/(liabilities)	525,493	(353,801)	(590,080)
Net assets	**1,520,318**	**726,107**	**529,617**

We recorded net current assets of RMB525.5 million as at December 31, 2021 and recorded net current liabilities of RMB353.8 million and RMB590.1 million as at December 31, 2022 and 2023, respectively. Our net current liabilities as at December 31, 2022 was primarily due to the dividend of RMB1,013.0 million and RMB89.8 million declared in February and December 2022, respectively, to our shareholders. Our net current liabilities as at December 31, 2023 further increased to RMB590.1 million primarily due to dividend of RMB270.0 million declared in 2023 to our shareholders. For details of the dividend distribution of our Group, please refer to "Financial Information — Dividend" in this prospectus.

We had net assets of RMB1,520.3 million, RMB726.1 million and RMB529.6 million as of December 31, 2021, 2022 and 2023, respectively. The decrease in our net assets in 2022 was mainly due to (i) total dividends of RMB1,102.8 million (including dividends of RMB1,013.0 million and RMB89.8 million declared in February 2022 and December 2022, respectively); and (ii) repurchase of shares amounted to RMB33.0 million in 2022, and partially offset by the net profit recorded in 2022 of RMB340.5 million. Our net assets decreased to RMB529.6 million as of December 31, 2023 mainly attributable to the dividends of RMB270.0 million declared and partially offset by the net profit of RMB72.9 million in 2023. For details, please refer to the Consolidated Statements of Change in Equity and related notes of "Appendix I — Accountant's Report" in this prospectus.

Selected Information on Consolidated Statements of Cash Flows

The table below sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows from operating activities	124,233	148,362	160,529
Net cash flows from/(used in) investing activities	(236,724)	53,904	(79,831)
Net cash flows from/(used in) financing activities	139,713	(188,969)	(98,905)
Net increase/(decrease) in cash and cash equivalents	27,222	13,297	(18,207)
Cash and cash equivalents at beginning of year	42,354	69,461	83,451
Effect of foreign exchange rate changes	(115)	693	189
Cash and cash equivalents at end of year	69,461	83,451	65,433

During the Track Record Period, our cash flows from operating activities were generated primarily from our self-produced products sales and products trading. For the year ended December 31, 2021, 2022 and 2023, we recorded continuous positive cash flows from our operating activities.

For the year ended December 31, 2023, our net cash flows from operating activities of RMB160.5 million reflect our profit before tax of RMB94.7 million, as positively adjusted primarily by (i) a decrease in inventories of RMB33.4 million, and (ii) depreciation of property, plant and equipment of RMB111.2 million, and was partially offset by negative adjustment of increase in trade and bills receivables of RMB91.0 million.

For the year ended December 31, 2022, our net cash flows from operating activities of RMB148.4 million reflect our profit before tax of RMB427.7 million, as negatively adjusted primarily by (i) an increase in trade and bills receivables of RMB205.1 million; and (ii) income tax paid of RMB195.4 million, and partially offset by positive adjustment of depreciation of property, plant and equipment of RMB99.1 million.

For the year ended December 31, 2021, our net cash flows from operating activities of RMB124.2 million reflect our profit before tax of RMB393.5 million, as negatively adjusted primarily by (i) an increase in inventories of RMB189.5 million, and (ii) an increase in trade and bills receivables of RMB264.3 million, partially offset by positive adjustment of depreciation of plant and equipment of RMB93.7 million.

For the detailed analysis on the cash flows of our Group, please refer to "Financial Information — Liquidity and Capital Resources" in this prospectus.

KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
Gross profit margin[1]	22.9%	22.3%	12.3%
Net profit margin[2]	11.1%	10.9%	2.7%
Return on Equity[3]	20.3%	46.9%	13.8%
Return on Assets[4]	10.5%	15.8%	3.4%
	As at December 31,		
	2021	**2022**	**2023**
Current Ratio[5]	1.4	0.7	0.6
Gearing Ratio[6]	41.3%	87.2%	158.5%

Notes:

(1) Gross profit margin equals gross profit divided by revenue for the periods.

(2) Net profit margin equals profit for the periods divided by revenue for the periods.

(3) Return on equity equals profit for the periods divided by total equity as at end of the periods.

(4) Return on assets equals profit for the periods divided by total assets as at end of the periods.

(5) Current ratio equals current assets divided by current liabilities as of the end of the periods.

(6) Gearing ratio equals net debt divided by total equity as at end of the periods.

Our return on equity increased from 20.3% for the year ended December 31, 2021 to 46.9% for the year ended December 31, 2022, primarily attributed to our increase in net profits generated and the dividend distributions in 2022. Our return on equity decreased to 13.8% for the year ended December 31, 2023, primarily attributed to our significant decrease in net profits in 2023. For details of our key financial ratios, please refer to "Financial Information — Key Financial Ratios" in this prospectus.

OFFERING STATISTICS

All statistics in the following table are based on the assumptions that (i) the Global Offering has been completed and 18,300,000 new Shares are issued pursuant to the Global Offering; (ii) 93,300,000 Shares are in issue immediately following the completion of the Global Offering; and (iii) the Over-allotment Option is not exercised.

	Based on the low end of the indicative Offer Price Range of HK$5.5 per Share	Based on the mid-point of the indicative Offer Price Range of HK$7.0 per Share	Based on the high end of the indicative Offer Price Range of HK$8.5 per Share
Market capitalization of our Shares(1)	HK$513.2 million	HK$653.1 million	HK$793.1 million
Unaudited pro forma adjusted consolidated net tangible asset per Share(2)	HK$6.86	HK$7.16	HK$7.45

Notes:

(1) The calculation of market capitalization is based on 93,300,000 Shares expected to be in issue, with 18,300,000 Shares to be issued pursuant to the Global Offering, immediately upon completion of the Global Offering.

(2) The unaudited pro forma adjusted consolidated net tangible assets value per Share is calculated after making certain adjustments referred to in "Appendix II — Unaudited Pro Forma Financial Information" in this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK$7.0 per Offer Share, being the mid-point of the Offer Price range stated in this prospectus, we will receive net proceeds of approximately HK$53.3 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering, assuming the Over-allotment Option is not exercised. We intend to use the net proceeds from the Global Offering for the following purposes:

- approximately 82.0% of the net proceeds from the Global Offering (or approximately HK$43.7 million), will be used to increase our production capacity by constructing new production facilities at Hubei Xinxuanhong Production Plant;

- approximately 3.0% of the net proceeds from the Global Offering (or approximately HK$1.6 million), will be used for our research and development activities;

- approximately 5.0% of the net proceeds from the Global Offering (or approximately HK$2.7 million), will be used for sales and marketing activities to enhance our brand recognition in the PRC and overseas; and

- approximately 10.0% of the net proceeds from the Global Offering (or approximately HK$5.3 million), will be used for our working capital and general corporate purposes, including procurement of raw materials and management of inventory level.

For details, please refer to "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus.

LISTING EXPENSES

The total listing expenses of our Company are estimated to be approximately HK$74.8 million (or approximately RMB67.9 million) assuming the Over-allotment Option is not exercised and based on an Offer Price of HK$7.0 (being the mid-point of our Offer Price range of HK$5.5 to HK$8.5 per Offer Share), representing 58.4% of the gross proceeds from the Global Offering. These listing expenses are mainly comprised of underwriting-related expenses of approximately HK$14.9 million (or approximately RMB13.5 million), and non-underwriting related expenses of approximately HK$59.9 million (or approximately RMB54.4 million), which are comprised of (i) accountant and legal adviser fees and expenses of approximately HK$37.4 million (or approximately RMB34.0 million) and (ii) printing and other fees and expenses of approximately HK$22.5 million (or approximately RMB20.4 million). The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

The listing expenses incurred up to December 31, 2023 by our Company in relation to the Listing and the Global Offering were RMB41.9 million, of which (i) RMB7.8 million, RMB14.4 million and RMB10.1 million were charged to our consolidated statement of profit or loss for the year ended December 31, 2021 and 2022 and 2023, respectively, and (ii) RMB9.6 million will be deducted from equity upon Listing. We estimate that additional listing expenses of approximately RMB26.1 million (including underwriting commissions and other expenses, assuming the Over-allotment Option is not exercised and based on the mid-point of our Offer Price range of HK$5.5 to HK$8.5 per Offer Share) will be incurred by our Company, approximately RMB9.5 million of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB16.6 million of which is expected to be deducted from equity upon Listing.

LEGAL PROCEEDINGS AND NON-COMPLIANCE MATTERS

From time to time, we may be subject to legal proceedings, investigations and claims incidental to the conduct of our business. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material litigation, arbitration or claims (including personal injuries, employee compensation or product liability claims) and we are not aware of any material litigation, arbitration or claims pending or threatened against us that would have a material adverse effect on our business, financial condition or results of operations. Our Directors are not involved in any actual or threatened claims or litigations. However, we may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of business.

During the Track Record Period, we had not committed and did not commit any material non-compliance with the laws or regulations which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations. We understand from our PRC Legal Advisors that, other than (i) our failure to (a) complete certain inspections or filings; and (b) obtain certain building ownership certificates as disclosed in the subsection headed "Business — Properties — Self-Owned Properties — Buildings", (ii) our failure to attend to (a) the "Three Simultaneities (三同時)" procedures for the prevention and control of occupational disease hazards for certain sectors of the construction project; and (b) the energy conservation review for certain projects as disclosed in the subsection headed "Business — Environmental, Social and Governance — Occupational Health and Work Safety" and (iii) the non-compliance of our Group relating to advances arrangement as disclosed in the subsection headed "Business — Non-compliance Relating to Advances Arrangement" in this prospectus, we had complied with all relevant laws and regulations in all material respects during the Track Record Period and the subsequent period up to the Latest Practicable Date.

RISK FACTORS

Our business operations and the Global Offering involve certain risks and uncertainties. For further information, please refer to "Risk Factors" in this prospectus. Some of the major risk factors include: (i) any shortage in supply of raw materials or material fluctuation in their purchase prices may adversely affect our profit margins and results of operation; (ii) any change in demand may adversely affect our revenue and profitability as we generate a substantial portion of our revenue through the sales of our self-produced products; (iii) we experienced fluctuation in our financial performance during the Track Record Period and our historical performance may not be indicative of our future performance; (iv) we rely on our distributors for the sale of our products to their respective end customers. Termination of or failure to renew our distribution relationship with our distributors may significantly decrease the sale of our products; (v) we may be subject to liability in connection with accidents that occur during the production process at our production facilities due to, amongst others, failure to comply with safety measures and procedures; and (vi) we rely on certain key personnel and may not be able to retain their services.

DIVIDEND

During the Track Record Period, we declared and distributed dividends of RMB1,013.0 million, RMB89.8 million and RMB270.0 million in February 2022, December 2022 and December 2023, respectively, to our shareholders (the "**Dividends**"). Among the Dividends of RMB1,372.8 million in aggregate, (i) dividends of RMB886.0 million in aggregate was used to offset our Group's receivables due from Linuo Group and Linuo Investment; (ii) dividends of RMB353.7 million in aggregate was paid in cash to shareholders other than the Wuhan Youji Employee Trust as of the Latest Practicable Date; and (iii) dividends of RMB133.1 million were distributed to the Wuhan Youji Employee Trust, including (a) dividends of RMB21.4 million attributable to 632 contactable shareholders which were fully settled as of the Latest Practicable Date and (b) the remaining dividends attributable to 4,713 shareholders that could not be contacted as of the Latest Practicable Date. We are undertaking continuous effort to contact these shareholders through news publication of the dividend payment, contacting these shareholders through their last known contact information, actively monitoring and responding to the municipal hotline and Wuhan Youji Employee Trust consultation hotline and encouraging word-of-the-mouth dissemination of this dividend payment by employees. For details of the dividend distribution of our Group, please refer to "Financial Information — Dividend" in this prospectus.

Currently, we do not have a formal dividend policy or a fixed dividend distribution ratio. Subject to the Cayman Islands law and the Articles and Memorandum, the proposal of payment and the amount of our dividends in the future will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Any declaration and payment of dividends will be subject to our constitutional documents and the Companies Act. Under Cayman Islands law, dividends may be paid out of profit or, if the Articles allow for it, out of share premium account of the Company provided relevant laws are complied with. We will review our dividend policy from time to time.

NEW MEASURES ON OVERSEAS LISTING FILINGS

The China Securities Regulatory Commission ("**CSRC**") promulgated Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Overseas Listing Trial Measures**") and five relevant guidelines on February 17, 2023, which became effective on March 31, 2023. The Overseas Listing Trial Measures regulate both direct and indirect overseas offering and listing by PRC domestic companies' by adopting a filing-based regulatory regime. For more details, please refer to "Regulatory Overview — Regulatory developments on overseas listing — New measures on overseas listing filings" in this prospectus.

Our PRC Legal Advisors are of the view that we are required to comply with the filing requirements under the Overseas Listing Trial Measures. We have completed the filing procedure with the CSRC with respect to the listing of our Shares on the Stock Exchange and for the Global Offering on January 2, 2024.

MARKET DEVELOPMENTS IN 2023

The chemical industry, in particular toluene oxidation and chlorination products industry, experienced a challenging year in 2023 as impacted by the uncertainty surrounding the economic environment globally as well as in the PRC and the geopolitical tension, which in turn has a widespread negative impact on the customers' spending in various downstream industries. Although our downstream customers mainly related to daily necessities such as food and beverages and pharmaceutical which have relatively stable demands, they delay their purchases and reduce their inventory level in light of the uncertain economic environment, which in turn adversely affects their demand on chemical products. In addition, as petroleum price remained at relatively low level throughout 2023, which resulted in the decrease in raw material price of the Group's products, the Group lowered the average selling price of its products in response to the then market circumstances. According to the General Administration of Customs of the PRC, export value of basic organic chemicals industry in the PRC has dropped from approximately RMB515.1 billion in 2022 to RMB403.6 billion in 2023, decreasing at a rate of 21.5%. According to the National Bureau of Statistics, the Purchasing Manager's Index (PMI) was consistently below 50 throughout majority of 2023 while the Producer Price Index (PPI) in the PRC dropped from 9.1% in January 2022 to a negative level since October 2022 and throughout 2023, which represent a contraction in the upstream industries. At the same time, Consumer Price Index (CPI) in the PRC also dropped to a level close to zero in 2023 indicating an overall weak consumer sentiment in 2023. According to the World Bank, global economy shown a decelerating trend with the global GDP growth fell from 3.0% in 2022 to 2.6% in 2023.

In light of the unfavorable economic environment and the reduced consumer demand, as a prudence measure to maintain greater liquidity and flexibility at the time of uncertainties, many downstream industry customers tend to lower their inventory level or slow down their inventory replenishment, resulting in sluggish demand for fine chemicals. This was completely opposite to the market circumstances in 2022 when the chemical industry was at a boom and the downstream industrial customers were stocking up as they foresee there could be an increase in selling prices, including the price of toluene oxidation and chlorination products. These circumstances also coincided with the expansion in capacity of some of the market players in toluene oxidation products which were put into operation since late 2022 which further increases the market supply of toluene oxidation products. According to Frost & Sullivan, there is no newly constructed production capacity of toluene oxidation products by five major domestic manufacturers that is put into operation in 2024. The increase in market supply of toluene oxidation products further intensified the market competition amid time of weak demands, which has an immediate adverse impact on the market participants as it takes time to digest the increased production capacity. All of which further exerted significant downward pressure on product pricing. This circumstance was a reversal of the marketing condition in 2022 when demand was much higher than the supply, which positioned chemical manufacturers in an ideal market position.

To cope with the challenging market environment, chemical manufacturers, including our Group, have been lowering product selling prices so as to effectively compete in the market, and to maintain the utilization rates of their production facilities. Together with the decrease in sales volume with the contraction in downstream demand, most chemical industry players recorded a drop in revenue in 2023. According to Frost & Sullivan, all of the top five players in the PRC benzoic acid market, sodium benzoate market and the top three players in the PRC benzyl alcohol market recorded a drop in revenue in 2023 as compared to 2022 ranging from 13.8% to 48.3%. As the manufacturing and operating costs are relatively fixed, the reduction in selling prices has a significant impact to the profit margins. According to the statistics published by the National Bureau of Statistics, entities in the PRC chemical materials and manufacturing industry had recorded a drop in revenue in 2023 by 3.5%, whereas net profit of the industry dropped more significantly by 34.1% in 2023 as compared to 2022. Many listed chemical companies also exhibited a similar trend in their revenue and profitability with a drop in net profit by over 70%, a number of which even turned from net profit in 2022 to a loss in 2023. According to Frost & Sullivan, the significant decrease in profitability for chemical companies in 2023 was an industry norm. The drop in revenue and net profit of benzoic acid, sodium benzoate and benzyl alcohol industry in 2023 in the PRC were more significant compared to the chemical materials and manufacturing industry in the PRC mainly because the average sales price of benzoic acid, sodium benzoate, and benzyl alcohol in the PRC experienced a higher decreasing trend in 2023 compared to that of the chemical materials and manufacturing industry in the PRC.

As a top-ranked toluene oxidation and toluene chlorination products provider in the PRC and the global market, we were unavoidably adversely affected by the downturn in the chemical industry. In light of the unfavourable market sentiment, we adopted a strategy to sell our products at a lower prices so as to maintain our market position and the utilization rate of our production facilities at an optimal level while at the same time, maintain or even increase our market shares. With our competitive advantages as a leading player in the market, we view it as an opportunity to further strengthen our market position as we are able to effectively compete in the market in such circumstances. According to Frost and Sullivan, we remained as the largest manufacturer for both benzoic acid and sodium benzoate in the PRC in terms of the sales revenue in 2023 with our market share increased from 59.1% and 37.3% in 2022 to 62.0% and 37.9% in 2023. As a result of the above, our revenue, gross profit and gross profit margin dropped significantly in 2023. For details, please refer to "Business — Market Development in 2023" in this prospectus. Despite these circumstances, we continue to devote significant efforts to improve our performance. Together with the gradual recovery of the chemical industry globally and also in the PRC, our performance gradually improved since the third quarter of 2023 with quarter-to-quarter increase in revenue (based on the unaudited management accounts) by 8.7% and 6.6% in the third quarter and fourth quarter of 2023, respectively.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, with our continuous efforts in improving our performance and the gradual recovery of the chemical industry globally and also in the PRC, our performance gradually improved. In particular, based on the unaudited management accounts of the Company as of March 31, 2024, our revenue and sales volume for the three months ended March 31, 2024 increased by 15.0% and 6.7%, respectively, as compared to the same period in 2023. The utilization rates of our Wuhan Production Plant and Qianjiang Xinyihong Production Plant also increased in the first quarter of 2024 as compared to that in 2023, indicating an improvement in our performance.

Our Directors confirm that, as of the date of this prospectus, there had been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since December 31, 2023, the end of the period reported on the Accountants' Report included in Appendix I to this prospectus.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below. Certain other terms are explained in "Glossary."

"AFRC"	the Accounting and Financial Reporting Council of Hong Kong
"Articles" or "Articles of Association"	the amended and restated articles of association of our Company conditionally adopted on May 21, 2024 and with effect upon Listing Date, a summary of which is set out in "Appendix III — Summary of our Constitution and Cayman Islands Companies Law" in this prospectus
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of Directors
"business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capital Market Intermediaries"	the capital market intermediaries participating in the Global Offering as listed in the section headed "Directors and Parties Involved in the Global Offering" in this prospectus and has the meaning ascribed thereto under the Listing Rules
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this prospectus, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"Companies Act"	the Companies Act (as revised) of the Cayman Islands as amended from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)

"Company," "our Company," "we," "our" or "us"	Wuhan Youji Holdings Ltd. (武漢有機控股有限公司) (formerly known as Centelligence Holdings Ltd.), an exempted company incorporated under the laws of the Cayman Islands with limited liability on September 23, 2016
"Controlling Shareholder(s)"	has the meaning given to it under the Listing Rules and unless the context otherwise requires, refers to the person(s) named in the "Relationship with our Controlling Shareholders"
"Director(s)"	the director(s) of our Company
"Extreme Conditions"	the occurrence of "extreme conditions" as announced by any government authority of Hong Kong due to serious disruption of public transport services, extensive flooding, major landslides, large-scale power outage or any other adverse conditions before Typhoon Signal No. 8 or above is replaced with Typhoon Signal No. 3 or below
"F&S" or "Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., our industry consultant and an independent third party
"F&S Report" or "Frost & Sullivan Report"	an independent market research report prepared by F&S, which was commissioned by our Company for the purpose of this prospectus
"FINI"	"Fast Interface for New Issuance", an online platform operated by HKSCC that is mandatory for admission to trading and, where applicable, the collection and processing of specified information on subscription in and settlement for all new listings
"Fortune 500 companies"	the 500 largest companies recognized and published by the Fortune magazine
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group," "our Group," "we," "our" or "us"	our Company and its subsidiaries, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
"Hebei Kangshi"	Hebei Kangshi New Materials Co., Ltd. (河北康石新材料有限公司), a limited liability company established under the laws of the PRC on January 14, 2019 and a material joint venture of our Group
"**HK eIPO White Form**"	the application for the Hong Kong Offer Shares to be issued in the applicant's own name, submitted through the **IPO App** or the designated website at **www.hkeipo.hk**

"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified in the **IPO App** and on the designated website at **www.hkeipo.hk**
"HKFRS"	Hong Kong Financial Reporting Standards, issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC EIPO"	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your designated HKSCC Participant's stock account through causing HKSCC Nominees to apply on your behalf, including by instructing your broker or custodian who is a HKSCC Participant to give **electronic application instructions** via HKSCC's FINI System to apply for the Hong Kong Offer Shares on your behalf
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"HKSCC Operational Procedures"	the operational procedures of HKSCC, containing the practices, procedures and administrative or other requirements relating to HKSCC's services and the operation and functions of the Systems, as from time to time in force
"HKSCC Participant"	a participant admitted to participate in CCASS as a direct clearing participant, a general clearing participant or a custodian participant
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Offer Shares"	the 1,830,000 Shares being initially offered for subscription in the Hong Kong Public Offering, subject to reallocation
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares at the Offer Price for subscription by the public in Hong Kong
"Hong Kong Share Registrar"	Tricor Investor Services Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in "Underwriting – Hong Kong Underwriters" in this prospectus

"Hong Kong Underwriting Agreement"	the underwriting agreement dated June 5, 2024 relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Sole Sponsor, the Sole Overall Coordinator and the Hong Kong Underwriters, as further described in "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement" in this prospectus
"Hubei Kangxin"	Hubei Kangxin Chemical Trading Co., Ltd. (湖北康新化工貿易有限責任公司), a limited liability company established under the laws of the PRC on December 12, 2018 and our wholly-owned subsidiary
"Hubei Tuopu"	Hubei Tuopu Organic and Phosphoric Chemicals Import and Export Co., Ltd. (湖北拓樸有機磷化進出口有限公司), a limited liability company established under the laws of the PRC on May 20, 2002 and a related party of our Group
"Hubei Xinlianhong"	Hubei Xinlianhong New Materials Technology Co., Ltd. (湖北新連宏新材料科技有限公司), a limited liability company established under the laws of the PRC on November 28, 2022 and our wholly-owned subsidiary
"Hubei Xinxuanhong"	Hubei Xinxuanhong New Materials Co., Ltd. (湖北新軒宏新材料有限公司), a limited liability company established under the laws of the PRC on January 5, 2021 and our wholly-owned subsidiary
"independent third party(ies)"	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquiries, is/are not a connected person of our Company
"International Offer Shares"	the 16,470,000 Shares being initially offered in the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to reallocation
"International Offering"	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S, as further described in "Structure and Conditions of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering

"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, the Company, the Sole Sponsor, the Sole Overall Coordinator and the International Underwriters as further described in "Underwriting — Underwriting Arrangements and Expenses — International Offering" in this prospectus
"**IPO App**"	the mobile application for **HK eIPO White Form** service which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp**
"Joint Bookrunners"	the joint bookrunners as named in "Directors and Parties Involved in the Global Offering" in this prospectus
"Joint Lead Managers"	the joint lead managers as named in "Directors and Parties Involved in the Global Offering" in this prospectus
"Latest Practicable Date"	May 29, 2024, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Linuo Group"	Linuo Group Holdings Co., Ltd. (力諾集團股份有限公司), a limited liability company established under the laws of the PRC on September 28, 1994
"Linuo Investment"	Wuhan Linuo Investment Holdings Group Co., Ltd. (武漢力諾投資控股集團有限公司), a limited liability company established under the laws of the PRC on November 29, 2001
"Listing"	the listing of the Shares on the Main Board
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about Tuesday, June 18, 2024 on which the Shares are to be listed on the Stock Exchange and from which dealings in the Shares are to be permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange

"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company conditionally adopted on May 21, 2024 and with effect upon Listing Date, a summary of which is set out in "Appendix III — Summary of our Constitution and Cayman Islands Companies Law" in this prospectus
"Mr. Chen"	Mr. Chen Ping (陳平), an executive Director and one of the joint company secretaries of our Company
"Mr. Gao"	Mr. Gao Lei (高雷), a non-executive Director who, together with Vastocean Capital Limited, will constitute our Controlling Shareholders upon Listing
"Mr. Shen"	Mr. Shen Yingming (申英明), a non-executive Director
"Mr. Zou"	Mr. Zou Xiaohong (鄒曉虹), an executive Director and the chairman of the Board
"Nomination Committee"	the nomination committee of the Board
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%)
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
"OTCBB"	Over-the-Counter Bulletin Board, an inter-dealer quotation system operated by the Financial Industry Regulatory Authority, which regulates member brokerage firms in the United States
"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriters, exercisable by the Sole Overall Coordinator (for itself and on behalf of the International Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 15% additional Shares to cover over-allocations in the International Offering
"PRC Legal Advisors"	Jingtian & Gongcheng
"Price Determination Agreement"	the agreement expected to be entered into between our Company and the Sole Overall Coordinator (for itself and on behalf of the Underwriters) on or about the Price Determination Date to determine the Offer Price

"Price Determination Date"	the date, expected to be on or about Friday, June 14, 2024, on which the Offer Price will be determined
"Qianjiang Xinyihong"	Qianjiang Xinyihong Organic Chemical Co., Ltd. (潛江新億宏有機化工有限公司), a limited liability company established under the laws of the PRC on December 5, 2006 and our wholly-owned subsidiary
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reorganization"	the corporate reorganization undergone by our Group in preparation of the Listing as described in "History, Reorganization and Corporate Structure – Reorganization"
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
"SAMR"	the State Administration for Market Regulation (國家市場監督管理總局), formerly known as the State Administration for Industry and Commerce (國家工商行政管理總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the capital of our Company of a par value of US$0.0001 each
"Shareholder(s)"	holder(s) of our Share(s)
"Sole Global Coordinator"	the sole global coordinator as named in "Directors and Parties Involved in the Global Offering" in this prospectus
"Sole Overall Coordinator"	the sole overall coordinator as named in "Directors and Parties Involved in the Global Offering" in this prospectus
"Sole Sponsor"	the sole sponsor as named in "Directors and Parties Involved in the Global Offering" in this prospectus
"Stabilizing Manager"	BOCOM International Securities Limited

"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between Vastocean Capital Limited and the Stabilizing Manager (or its affiliates or any person acting for it) pursuant to which the Stabilizing Manager (or its affiliates or any person acting for it) may borrow up to 2,745,000 Shares from Vastocean Capital Limited to facilitate the settlement of over-allocations in the International Offering
"Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchange and Clearing Limited
"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC
"Track Record Period"	the years ended December 31, 2021, 2022 and 2023
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"U.S. Securities Act"	the United States Securities Act of 1933, and the rules and regulations promulgated thereunder
"Wuhan Linuo"	Wuhan Linuo Investment Co., Ltd. (武漢力諾投資有限公司), a limited liability company established under the laws of the PRC on July 9, 2003 and a wholly-owned subsidiary of Linuo Investment until its deregistration on October 16, 2019
"Wuhan Youji"	Wuhan Youji Industries Co., Ltd. (武漢有機實業有限公司) (formerly known as Wuhan Youji Synthetic Chemical Plant (武漢有機合成化工廠), Wuhan City Wuhan Youji Synthetic Chemical Plant (武漢市武漢有機合成化工廠), and Wuhan Youji Industries Joint Stock Co., Ltd. (武漢有機實業股份有限公司)), a limited liability company established under the laws of the PRC on January 12, 1990 and our wholly-owned subsidiary
"Youji HK"	Wuhan Youji (Hong Kong) Co., Limited, a private company limited by shares incorporated under the laws of Hong Kong on June 10, 2016 and our wholly-owned subsidiary
"%"	percent

In this prospectus, the terms "associate(s)," "close associate(s)," "connected person(s)," "connected transaction(s)," "core connected person(s)," "controlling shareholder(s)," "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages. In the event of inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are provided for identification purposes only.

This glossary contains certain definitions and technical terms used in this prospectus in connection with our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.

"ammonification"	the process in which organic or inorganic acids associated with ammonia are converted into ammonium
"BRC"	the certification for an internationally recognized standard food safety management systems
"CAS number"	a unique numerical identifier issued by the American Chemical Society for chemical elements, compounds, polymers, biological sequences, mixtures and alloys
"catalyst"	a substance that speeds up a chemical reaction, but is not consumed by the reaction
"chlorination"	the process in which chlorine (and no other elements) are introduced into a molecule
"CIF"	the acronym for cost, insurance, and freight, which requires the buyer to assume full responsibility for the goods as soon as they reach the destination port
"FAMI-QS"	the certification for an internationally recognized standard for quality and feed safety management system for the sector of specialty feed ingredients and their mixtures
"FOB"	the acronym for free on board, which requires the seller to assume responsibility until the goods are loaded onto the shipping vessel
"FSSC 22000"	the certification for an internationally recognized standard for food safety management system issued by Intertek Certification Limited
"GMP"	a system for ensuring that products are consistently produced and controlled according to quality standards, which is designed to minimize the risks involved in any pharmaceutical production that cannot be eliminated through testing the final product. It is also the practice required in order to conform to the guidelines recommended by agencies that control the authorization and licensing of the manufacture and sales of pharmaceutical products
"HALAL"	the certification that guarantees that products and services aimed at the Muslim population meet the requirements of Islamic law

"ISO"	the International Organization for Standardization, a non-governmental organization based in Geneva, Switzerland, for assessing the quality systems of business organizations
"ISO 22000"	the certification for an internationally recognized standard for food safety management systems
"ISO 9001"	the certification for an internationally recognized standard for quality management systems
"KOSHER"	a certification of conformity of food to the regulations of kashrut which is a set of Jewish religious dietary laws and include a comprehensive legislation concerning permitted and forbidden foods
"oxidation"	the process or result of the chemical combination of a substance with oxygen
"sq.m."	square meter(s)
"toluene"	C_7H_8, a clear, colorless liquid which becomes a vapor when exposed to air at room temperature

This prospectus contains certain forward-looking statements and information relating to our Company and its subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "target", "will", "would" and the negative of these words and other similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business and operating strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment, operating conditions and general outlook in the industry and geographical markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our financial condition and performance;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information.

In this prospectus, statements of or references to our intentions or those of our Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks and uncertainties associated with an investment in our Company before making any investment decision in the Shares being offered in this Global Offering. If any of the circumstances or events described below actually arises or occurs, our business, and financial condition, operating results and prospects may suffer. In any such case, the market price of our Shares may decline, and you may lose all or part of your investment. This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.

RISKS RELATING TO OUR BUSINESS

Any shortage in supply of raw materials or material fluctuation in their purchase prices may adversely affect our profit margins and results of operation.

We source raw materials, in particular, toluene from a limited number of suppliers. For the years ended December 31, 2021, 2022 and 2023, our five largest raw material suppliers, who were Independent Third Parties, together accounted for approximately 76.6%, 78.0% and 79.7% of our total purchases respectively, and our largest raw material supplier accounted for approximately 41.0%, 32.9% and 27.9% of our total purchases respectively. For the years ended December 31, 2021, 2022 and 2023, the cost of consumed raw materials accounted for approximately 54.7%, 64.5% and 59.0% of our cost of sales respectively. During the Track Record Period, we were able to maintain stable business relationship with the largest raw material suppliers and major market participants in our industry to secure the raw material supply. It is our intention to continue purchasing from these suppliers for the coming years. However, we cannot guarantee that we will be able to renew the purchase agreements with these suppliers, or able to find alternative suppliers in time to replace these suppliers if we are not able to renew such agreements. Major toluene manufacturers may suspend production to carry out regular maintenance. There is no assurance that we will always be able to secure an adequate supply of raw materials at commercially viable prices to meet our future production requirements. Moreover, the price of our raw materials, especially that of toluene, is affected by its upper stream product crude oil, and any changes in the international crude oil prices, may increase our costs of sales and reduce our gross profit and gross margin. We cannot guarantee that we will not suffer adverse effects from any price increases of raw materials in the future. If we encounter a shortage of raw materials or if we are unable to pass on the price increases of raw materials to our customers in a timely manner, our business and results of operations could be adversely affected.

We generate a substantial portion of our revenue through the sales of our self-produced products, any change in demand may adversely affect our revenue and profitability.

We currently generate a substantial part of our revenue from the sales of our self-produced products, which include toluene oxidation products, toluene chlorination products, benzoic acid ammonification products and other fine chemical products, which in aggregate accounted for approximately 79.4%, 86.8% and 83.0% of the total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. The demand for and the price of our self-produced products are subject to fluctuations due to a variety of factors including the demand of our downstream industry customers in the PRC and global markets, prices of our raw materials used for production, and overall economic conditions. We may not be able to foresee these adverse factors and adjust our business strategy to combat these variables in a timely manner, and our actions may not sufficiently mitigate the adverse financial performance as of result of these macroeconomic factors. The chemical industry exhibited cyclical fluctuations from time to time coinciding with fluctuations in macroeconomic environment and unforeseen events. In 2023, the chemical industry was adversely impacted by the uncertainty surrounding the economic environment globally as well as in the PRC. In light of the unfavorable economic environment and the reduced consumer demand, many downstream industry customers lowered their inventory level or slow down their inventory replenishment as a prudent measure to maintain greater liquidity and flexibility at the time of uncertainties, resulting in sluggish demand for fine chemicals. For details, please refer to "Business — Market Development in 2023" in this prospectus.

In light of the significant industry downturn experienced in 2023, our financial performance was adversely impacted. It is uncertain that we can successfully broaden our revenue sources or, if we can, generate additional revenue at a level comparable to that from the sales of our self-produced products. In the event that there is any material adverse change in the market demand for and/or price of our self-produced products, our revenue and profitability may be materially and adversely affected.

We recorded minimal gross profit margin in 2021 through our products trading, and we cannot assure you that we will not incur gross loss or minimal gross profit margin in products trading in the future.

We engage in products trading to supplement our primary production operations to ensure the procurement of raw materials for production and as a strategy to effectively manage our inventory. We may occasionally incur marginal losses if there is a downward trend in market prices. Revenue contribution from products trading accounted for 20.6%, 13.2% and 17.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. We recorded minimal gross profit margin of 0.6% in 2021 for our products trading operations. Toluene products trading constitutes a substantial portion of our products trading business, and we incurred gross losses of RMB2.7 million for our toluene products trading in 2021. We engage in products trading despite fluctuating profits as we anticipate greater business advantage by maintaining products trading operations and stable access to raw material supply in the long run, and aim to be at the forefront of this developing trend. As the market prices of our products are expected to be fluctuating, we cannot assure you that we will not incur gross loss or minimal gross profit margin in products trading in the future.

We experienced fluctuation in our financial performance during the Track Record Period and our historical performance may not be indicative of our future performance.

We experienced fluctuation in our financial performance during the Track Record Period. Our revenue increased from RMB2,789.5 million in 2021 to RMB3,133.8 million in 2022, but then decreased to RMB2,677.1 million in 2023. During the same period, our net profit increased from RMB309.1 million in 2021 to RMB340.5 million in 2022, but then decreased to RMB72.9 million in 2023.

Our ability to generate revenue and achieve profitability will depend on the performance of our existing product offerings and the success of the implementation of our strategic initiatives. Our revenue and profit margin could also be affected by a number of factors, many of which are beyond our control, including regulatory evolvement, changes in economic, performance of and demand from downstream industries, epidemics, pandemics and competition, and our results of operations may be adversely affected by any of such factors. As a result, our historical performance may not be indicative of our future performance.

We had net current liabilities as at December 31, 2022 and 2023, and we cannot assure you that we will not continue to record net current liabilities.

As at December 31, 2022 and 2023, we recorded net current liabilities of RMB353.8 million and RMB590.1 million, respectively, which is primarily resulted from the dividend of RMB1,102.8 million and RMB270.0 million declared by our Company in 2022 and 2023, respectively. Although we recorded net current assets of RMB525.5 million as at December 31, 2021, we may incur net current liabilities in the future. Having net current liabilities could constrain our operational flexibility and could adversely affect our ability to expand our business. If we do not generate sufficient cash inflow from our operations to meet our present and future financial needs, we may need to continue to use and rely on external financial resources. If adequate external financial resources are not available in a timely manner on commercially acceptable terms or at all, we may encounter liquidity issue. Our business and financial condition and operating results could be adversely affected.

We face intense competition in our businesses. If we fail to compete successfully against our current or future competitors, our business, financial condition and results of operations may be materially and adversely affected.

Some of our competitors may be able to devote greater resources to the development, promotion, and sale of their products. In addition, market players with greater available resources and the ability to initiate or withstand substantial price competition could acquire our current or potential competitors. Our competitors may also establish cooperative relationships among themselves or with other market players that may further enhance their product offerings or resources. If our competitors' products become more accepted than our products, or if our competitors are able to respond more quickly and effectively to new or changing opportunities, technologies, or customer requirements, then our revenues and future business prospects could be adversely affected.

We may be required to modify our pricing practices in order to attract new customers or retain existing customers due to increased competition and/or excess market supply. For example, as impacted by the uncertainty surrounding the economic environment globally as well as in the PRC and the geopolitical tension, which in turn has a widespread negative impact on the customers' spending in various downstream industries, there was weak downstream demand in 2023, together with the increase in market supply of toluene oxidation products, we strategically lowered the ASPs for our self-produced products to ensure our market competitiveness and to maintain our market position and the utilization rate of our production facilities at an optimal level. Pricing pressures in connection with the increased competition and/or excess market supply could result in reduced sales, reduced margins, losses, or a failure to maintain or improve our competitive market position, any of which could adversely affect our business.

In response to the challenges posed by the increased competition and excess market supply, we have adopted and will continue to adopt various measures to improve our financial performances, including but not limited to (i) reduce manufacturing costs, (ii) actively explore domestic and overseas markets, (iii) actively maintain and further develop customer relationships, (iv) expedite the launch of new products, (v) maintain and enhance our relationship with raw material suppliers to purchase raw materials at a more favorable price. For details, please refer to "Business — Market Development in 2023" in this prospectus. However, we might not be able to successfully implement these business strategies successfully, or our strategies might not yield the desired results.

We rely on our distributors for the sale of our products to their respective end customers. Termination of or failure to renew our distribution relationship with our distributors, may significantly decrease the sale of our products.

We rely on our distributors to distribute and market our products. During the Track Record Period, revenue generated from the sales to the distributors amounted to approximately RMB989.1 million, RMB1,096.8 million and RMB994.6 million, respectively, representing 35.5%, 35.0% and 37.2% of our revenue, respectively, for the years ended December 31, 2021, 2022 and 2023. The performance of the distributors, their sales network and their ability to expand their businesses may affect the future growth of our business, sales volume and profitability. If most of our distribution agreements are suspended, terminated or otherwise expired without renewal, our profitability could be materially and adversely affected. We cannot assure you that we will be able to maintain our agreements with the distributors on favorable terms or at all. The distributors may not be able to maintain their competitiveness, or sell and market our products successfully, or we may not be able to monitor the distributors directly to ensure efficient sales of our products to their customers. Furthermore, if the sales volume of our products cannot be maintained at a satisfactory level, the distributors may not place orders on our new products with us or may reduce the quantity of our existing products or may ask for discount on the purchase price. In addition, we may not have sufficient control over the distributors, and we cannot assure you that the distributors will not breach their distribution agreements or will comply with their obligations thereunder, including those with respect to our retail policies. The loss of the distributors, or reduced orders from them or if the distribution agreements cannot be renewed or if the distributors breach any of the terms thereunder, could materially and adversely affect our business and financial condition and operating results. We focused on identifying, recruiting and retaining quality distributors as part of our growth strategies. If we are unable to maintain or grow our sales and distribution network, we could experience a decline in sales and market share.

We may be subject to liability in connection with accidents that occur during the production process at our production facilities due to, amongst others, failure to comply with safety measures and procedures.

In the course of operations and production, we require our employees to comply with and implement all the safety measures and procedures as stipulated in our internal policies. Nevertheless, there is no assurance that our safety measures or other related rules and regulations by our employees are strictly followed. As our production process at our production facilities inevitably involves the operation of tools, equipment and machinery, accidents resulting in employee injuries or even deaths may occur. There is no assurance that these accidents, whether due to malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. Any violation of safety measures and procedures may lead to higher probability of occurrences, and/or increased seriousness, of personal injuries, property damages and/or fatal accidents at our production facilities, which may materially and adversely affect business operations as well as financial position to the extent not covered by insurance policies.

During the Track Record Period and up to the Latest Practicable Date, no material personal injuries, material property damages and/or fatal accidents occurred at our production facilities. However, there is no assurance that there will not be any violations of rules, laws or regulations or breach of safety measures and procedures imposed by us on the part of our employees or other contractors in the future. In such event, we may be liable for personal injury or death and monetary losses suffered by our employees, fines or penalties or other legal liability arisen from violation of applicable PRC laws and regulations. We may also be subject to business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accident. Further, any enhanced safety measure imposed by the PRC government from time to time in the future could have a material adverse effect on the manner in which we conduct our operations, thereby adversely impacting our operations.

Labor shortages or increases in labor costs could harm our business, reduce our profitability and slow our growth.

Experienced professional staff and other labor are important for the operation of our businesses, and therefore, our success depends in part on our ability to attract, retain and motivate a sufficient number of our research and development personnel and staff for our production work. Qualified individuals in the relevant industries are in short supply and competition for workers is intense. In addition, competition for qualified individuals or workers could also require us to pay higher wages, which could result in higher labor costs.

Labor cost in the PRC has been on a rising trend over the years, and it may rise further in the future. We may not be able to fully transfer the increased cost of labor to our customers or offset the increase in labor cost against corresponding increases in the prices of our products. In the event that we are unable to cope with the increasing labor cost, our business, financial performance and results of operations may be adversely affected.

Our agreements with our customers and/or distributors do not contain specific labor cost adjustment mechanism, and we may fail to anticipate or may be unable to transfer the full impact of the increase in labor cost to our customers on a timely basis. In such cases, our business and results of operations may be adversely affected.

We rely on certain key personnel and may not be able to retain their services.

Our success to date has been, and will continue to be dependent on the continued services of our management and key personnel. In particular, we rely on the expertise and experience of our chairman of the Board and executive Director, Mr. Zou Xiaohong, and our chief executive officer, Mr. Zhou Xu, who have over 40 years and 35 years of experience, respectively, in the chemicals industry and toluene derivative products industry. For details, please refer to "Directors and Senior Management — Directors — Executive Directors" and "Directors and Senior Management — Senior Management" in this prospectus, respectively. We expect that that our management team will continue to play a pivotal role in the future growth and success of our business. However, there is no guarantee that we will be able to attract and retain our current personnel or that they will not leave our employment in the future. If one or more of the members of our senior management or other key personnel are unable or unwilling to continue in their present positions, we may not be able to find suitable replacements in a timely manner, or at all. In addition, individuals with sufficient training may not be available to hire, and we will need to expend significant time and expense training the employees we hire. Furthermore, our ability to train and integrate new employees into our operations may not meet the growing demands of our business, which may materially and adversely affect our ability to grow our business and our results of operations.

If we are not able to implement our production expansion plan or effectively manage our expansion, our business and financial condition and operating results could be adversely affected.

As part of our development strategies, we intend to further expand our existing production capacities by development of the Hubei Xinxuanhong Production Plant. For details, please refer to "Business — Production Expansion Plan" in this prospectus. Our expansion plans may involve the following risks: (i) our actual production volume may vary depending on the demand and purchase orders for our products which in turn may be affected by market trends, customers' preferences or other factors which are beyond our control; (ii) the demand for our products and revenue to be generated may not increase in line with our increase in production capacity; and (iii) we expect to incur increased fixed costs, such as amortization of right-of-use assets and depreciation costs, in connection with capital investments relating to the expansion of our manufacturing facilities, and will be charged to our Group's consolidated statements of profit or loss each year. Other variable costs incurred in relation to the expansion will be accounted for based on the actual production volume, level of distribution and business activities engaged in by our Group, and relocation of staff from other production plants; we cannot guarantee our expansion plans will be successfully implemented without delay or at all; and we may not be able to obtain the necessary licenses from the relevant regulatory authorities for our expansion plans. We cannot assure you that our expansion plans will be implemented without failure or delay, nor can we provide any assurance to you that the demand for our products will increase in line with our increasing production capacity in the future. Any delays in the construction schedule, deviation from our planned specifications, failure to control the costs within budget as a result of the above factors may affect the time that our production capacities could be enhanced and our results of operations and financial position may also be adversely affected. If we cannot recoup the increased costs for the expansion in our production capacity, our business and financial condition and operating results could be adversely affected.

In addition, we cannot assure you that we will always be able to obtain the financing required to fund such capital expenditures for the implementation of our production expansion plan within the prescribed timeframe, or at all. If our business growth is slower than we have expected, it may lead to over-expansion of our production capacity and may result in lower production utilization rate, which could have an adverse impact on our gross profit margin.

We face challenges in achieving the goals of our business strategies, and we may not be successful in implementing our strategies and business initiatives.

We have experienced considerable growth in our business in recent years. We seek to pursue strategies that we believe would further strengthen our market position, such as increasing our in-house production capacities in Hubei Xinxuanhong Production Plant and further expanding our marketing network in North America, Southeast Asia and India. We also plan to increase our domestic and international market shares by forming strategic partnerships with established market participants, and further enhance our research and development ability.

The implementation of these business strategies may be subject to capital investment and human resources constraints. Our ability to implement such strategies will depend on a variety of factors, some of which are beyond our control, such as the general market conditions, the economic and political environment of the PRC and the world. While we believe our business strategies will help us to achieve our strategic goals, we might not be able to successfully carry out such strategies or our strategies might not yield the desired results.

Failure to fulfil our obligations related to our contract liabilities could materially and adversely affect our results of operation, liquidity and financial position.

Our contract liabilities represent short-term advances we received for products we have not delivered to the purchasers. As at December 31, 2021, 2022 and 2023, we had contract liabilities of approximately RMB64.3 million, RMB42.9 million and RMB50.6 million, respectively. There is no assurance that we will be able to fulfil our obligations for these contract liabilities as the completions of existing and future orders from our customers are subject to various factors, including availability of raw materials and our ability to procure them from the suppliers, and logistics services, and normal operations of our business. If we are not able to fulfill our contract liability obligations, the amount of contract liabilities will not be recognized as revenue, and we may have to return the advanced payments made by our customers or provide alternative compensation for the deferred revenue due to the customers. As a result, our results of operations, liquidity and financial position may be materially and adversely affected.

Any failure by our customers to make payments for trade and bills receivables to us, or any disputes over, or significant delays in receiving, such payments could materially and adversely affect our cash flows and profitability.

As at December 31, 2021, 2022 and 2023, our gross amount of trade and bills receivables were approximately RMB234.9 million, RMB327.8 million and RMB296.9 million, respectively. For further information on our trade and bills receivables, please refer to "Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position — Net Current Assets/Liabilities — Trade and Bills Receivables" in this prospectus. Our trade and bills receivables turnover days were 24 days, 33 days and 42 days for the years ended December 31, 2021, 2022 and 2023, respectively. The trade and bills receivables turnover days are based on the average of the beginning and the ending balance of trade and bills receivables of the respective period divided by the revenue for that corresponding period multiplied by 365 days.

Our Group's profitability and cash flows are dependent to a large extent on the creditworthiness of our customers and their ability to settle the outstanding amount owed to our Group in accordance with the credit periods we have granted to them. Any failure by our customers to make payments to us, or any dispute over or significant delays in receiving such payments from our customers, could require us to write off or make provision against our trade and bills receivables, either of which could adversely affect our cash flows and profitability.

We may be exposed to impairment loss risks associated with our prepayments, deposits and other receivables.

During the Track Record Period, our prepayments, deposits and other receivables primarily consisted of deposits and other receivables, prepayments, deductible input VAT, and loans to directors. Our prepayments, deposits and other receivables amounted to RMB1,094.9 million, RMB69.3 million and RMB145.4 million as of December 31, 2021, 2022 and 2023, respectively. Among which, RMB1,008.2 million, RMB13.3 million and RMB59.4 million were receivables due from related parties. As at the same dates, our prepayment, which primarily related to prepayment to suppliers for our raw material, were RMB62.1 million, RMB27.7 million and RMB29.3 million, respectively.

In the event that our related parties fail to make payments for the loans extended to them, or our suppliers fail to provide the raw materials that they agreed to provide to us after we have made prepayments to them or fail to return the respective prepayments to us in full or at all, we may have to make provision for impairment on our payments to them. As such, if we need to make provision for impairment losses for our prepayments, deposits and other receivables, our business, financial condition and results of operations may also be materially and adversely affected.

Our results of operations may be affected by the share of results of our joint venture and associates and we may be subject to related liquidity risk if no dividend is declared to us.

During the Track Record Period, we derived certain portion of our profits from our investments in our associates, which amounted to RMB8.5 million, RMB11.8 million and RMB4.5 million for the year ended December 31, 2021, 2022 and 2023, respectively. For the same years, we incurred losses of RMB6.0 million, RMB8.0 million and RMB11.8 million from our investments in our joint venture. The carrying amount of our investment in joint venture and associates were RMB56.7 million, RMB56.8 million and RMB35.9 million as at December 31, 2021, 2022 and 2023, respectively. Our results of operations could be affected by the fluctuation in the share of results of our joint ventures and associates. In addition, our investment in joint ventures and associate are subject to liquidity risk. Our investments in joint ventures and associate are not as liquid as other investment products as there is no return in our investment until dividends are received even if our joint venture and associates reported profits under equity accounting.

Furthermore, our ability to promptly sell one or more of our interests in the joint venture and associates in response to the changing economic, financial and investment conditions is limited. We cannot predict whether we will be able to sell any of our interests in the joint venture or associates for the price or on the terms set by us. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquid nature of our investment in joint venture and associates may significantly limit our ability to respond to adverse changes in the performance of our joint venture and associates. In addition, if there is no or negative share of profit or no dividends from our joint venture or associates, our financial condition or result of operations could be materially affected. Moreover, as we expect to continue to invest in our existing and future joint ventures and associates for the expansion of our business, our liquidity may be further restricted if we are not able to receive dividends from our existing or future joint ventures and associates, which could materially and adversely affect our ability to conduct or expand our business.

Our success relies on the image of our "XINKANG (新康牌)" brand. Any damage to or deterioration in the image of such brand could materially and adversely affect our business and results of operations.

We believe brand image is a critical factor for our customers and distributors, their downstream resellers and end users in deciding whether to purchase our products. We market all of our products under our "XINKANG (新康牌)" brand. As such, if our brand becomes less attractive to our customers or less popular due to our failure to continue to maintain and promote the image of such brand, ineffective marketing strategies or any negative publicity or dispute relating to such brand, including product defects and counterfeit products, market perception and consumer acceptance of such brand may be eroded, in which case our business, financial condition and results of operations may be materially and adversely affected.

We and entities with which we collaborate to export our products may not be able to meet regulatory requirements imposed by the governments of the PRC or our export destinations.

We export certain amount of our products from China to our overseas customers. Certain countries to which we export our products may impose technical, hygienic, environmental or other requirements on the import, distribution and sales of our products, which may be different from or more stringent than the standards imposed by the PRC government authorities. In addition to requirements imposed by the PRC government authorities, other countries may also require us and entities with which we collaborate to export our products to obtain various approvals, certificates, registrations or other documentation to conduct our export sales.

We rely on our PRC freight forwarder and our overseas customers to complete all such relevant procedures, and they are responsible for complying with various aspects of the relevant PRC and foreign laws and regulations. As such, we cannot assure you that all of our PRC freight forwarder, our overseas customers or any other entities which we rely on are in compliance with all various aspects of PRC or foreign laws and regulations relevant to our export sales, or that they can meet the relevant standards or obtain the approvals, certificates, registrations or other documentation necessary to our export sales. If we or other entities with which we collaborate with to export our products fail to satisfy the relevant standards adopted by the PRC or the destination countries or obtain the requisite approvals, certificates, registrations or other documentation now or in the future, our ability to export to these markets could be materially and adversely affected. We may also face regulatory actions or claims for significant damages, and there may be a material adverse effect on our business, results of operations and financial condition.

A material disruption to the operation of our production facilities could materially and adversely affect our business and financial condition and operating results.

We cannot assure you that there will be no disruptions to the operations of our production facilities in the future. If operations at any of our production facilities are materially disrupted as a result of fires, equipment failure, natural disasters, work stoppages, power outages, explosions, adverse weather conditions, political turmoil, trade disputes, transport logistics, labor disputes, workforce restructuring or other factors, our business and financial condition and operating results could be adversely affected. The occurrence of any of these events could also require us to make significant unanticipated capital expenditures.

Interruptions in production could increase our costs and delay our delivery of products, which may further subject us to penalties or other liabilities under the relevant sales arrangements with our customers. Production suspensions caused by such disruptions could cause a reduction in sales or delay in sales recognition. Lost sales or increased costs arising from such disruption of operations may not be recoverable under our existing insurance policies and prolonged business disruption could result in a loss of customers. If any one or more of the above risks were to materialize, our business and financial condition and operating results could be adversely affected.

We may be subject to liability in connection with the use and storage of hazardous materials.

We use and store flammable and/or explosive raw materials, other hazardous materials or chemical compounds, which may cause industrial accidents if we do not handle these materials properly. We cannot assure you that any accident causing explosion, disruption of operation, injuries or death resulting from our negligence or mishandling of these hazardous materials will not happen at our production facilities. In such event, we may be liable for the loss of life and property, personal injuries, medical expenses suffered by the victims in the accident and we may have to pay fines and penalties for violation of applicable PRC laws and regulations. Furthermore, our manufacturing facilities may be required to halt operation pending investigations from the competent authorities, which would adversely affect our business operation, reputation and financial performance.

We generate and dispose environmental wastes which may subject us to liabilities.

Our operations are subject to PRC environmental protection laws and regulations which govern the emission, discharge, release and disposal of environmental wastes and other pollutants. Under the applicable laws and regulations, enterprises that produce environmental wastes are required to adopt effective measures to control, properly manage and dispose of environmental wastes, including waste gas, wastewater, solid wastes and noise. Manufacturers discharging environmental wastes and other pollutants are required to pay fines for discharges above permitted levels under the applicable PRC environmental protection laws and regulations. Failure to comply with the applicable PRC environmental laws or regulations may result in local environmental protection authorities imposing fines or suspending operations, and may lead to the loss of environmental and production licenses. The PRC government and PRC regional regulatory authorities have the discretion to suspend or close any facility failing to comply with such environmental protection laws and regulations. In the event that the PRC government imposes more stringent environmental protection laws and regulations, our production costs may substantially increase, or we may also be forced to suspend production or may need to incur material capital expenditures or other costs in order to remain in compliance and which we may be unable to pass on these additional costs to our customers.

We may not be able to maintain effective quality control and may be subject to product liability claims which could have a material adverse impact on our reputation, business and financial condition, and operating results.

The performance and quality of our products are critical to the success of our business. Our product quality depends significantly on the effectiveness of our quality control system, which, in turn, relies on a number of factors, including our ability to ensure that our staff is in full compliance with our quality control policies as well as the composition of our quality control team. Any significant failure or deterioration of our quality control system could seriously damage our product quality and have a material adverse effect on our reputation in the market among current or prospective customers, which could in turn lead to fewer orders in the future, and harm our financial condition and operating results.

We may not be able to effectively manage our inventory.

The balance of our inventory amounted to RMB305.6 million, RMB320.5 million and RMB285.3 million, respectively, and accounted for 17.4%, 37.1% and 34.3% of our current assets as of December 31, 2021, 2022 and 2023. For the years ended December 31, 2021, 2022 and 2023, our inventory turnover days were 36 days, 47 days and 47 days, respectively. This level of inventory, particularly of finished goods, may result in obsolescence if we over-estimate the demand level or if there is a sudden change in customer preference. The demand for our products is dependent on our customers' needs, the development of the sales channels (including the distributorship network) and the economic condition of the market which is beyond our control.

If we are not able to manage our inventory efficiently, we could be subject to the risk of inventory obsolescence, decline in the realizable value, and significant write-down of the value of our inventory. Any of these events could adversely affect our business and financial condition and operating results.

Litigation or legal proceedings could expose us to liability, divert our management's attention and negatively impact our reputation.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material litigation, claim or any other proceedings against us. However, we may be involved in litigation or legal proceedings during the ordinary course of business operations related to product or other types of liability, labor disputes or contract disputes that could have a material and adverse effect on our financial conditions. These actions could also expose us to adverse publicity, which might adversely affect our brands, reputation and customer preference for our products. If we become involved in any litigation or other legal proceedings in the future, the outcome of which could be uncertain and could result in settlements or outcomes that adversely affect our financial conditions. In addition, any litigation or legal proceedings could incur substantial legal expenses as well as significant time and attention of our management, diverting their attention from our business and operations.

We may not be able to protect our intellectual property rights, and the infringement of our intellectual property rights by third parties could affect our ability to compete.

Throughout our business development history, we have developed and maintained a number of patents and trademarks for our products. As at the Latest Practicable Date, we held three registered trademarks in the PRC. We also had 80 registered patents and 10 pending patent applications in the PRC. Seeking patent protection can be lengthy and expensive, and we cannot assure you that our patent applications will result in patents being issued or that our existing patents or patents issued in the future will be sufficient to provide us with meaningful or required protection or commercial advantage. Our patents and patent applications may be challenged, invalidated or circumvented. Our current or potential competitors, many of whom have substantial resources and have made substantial investments in competing technologies, may have, and may develop, products that compete directly with our products despite our possession of relevant intellectual property rights.

In addition, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to commence litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. In the event of any such litigation or an adverse determination in any such litigation, could result in substantial costs and diversion of resources and management attention, which could harm our business, reputation and competitive position.

Our existing insurance coverage may not be sufficient to cover the risks related to our operations and we may incur significant losses resulting from product liability claims or business interruptions.

Insurance policies taken out by us, including those against fire, natural disasters, operational interruptions and third-party liability, are subject to exclusions and limitations of liability both in amount and with respect to the insured events. We and/or our employees (as the case may be) may be exposed to claims in respect of matters that are not covered by any insurance policies we maintain. In addition, although we maintain insurance coverage we believe to be adequate based on the industry we operate in, covering our properties, manufacturing facilities, plant and machinery, equipment and inventories, which is also in line with market practice according to Frost & Sullivan, there may be circumstances (such as earthquakes, war, floods, transportation disruption, power shortages and disruption of or damage to our production facilities, equipment or products) in which we would not be covered adequately, or at all. Any material loss not covered by our insurance or reimbursed by our insurance providers could materially and adversely affect our business, financial conditions and results of operations.

We may be affected by global and regional trade policies.

As of December 31, 2023, we have exported our products to more than 70 countries across the world with a particular focus on the North American, Southeast Asian and European markets. For the years ended December 31, 2021, 2022 and 2023, we generated approximately 22.2%, 21.8% and 23.1% of our revenue from our sales to international market, respectively. Government policies favoring domestic companies in certain foreign markets or trade barriers including export or import requirements, higher hygiene standards in relation to food products, tariffs, taxes and other restrictions and charges may adversely affect our ability to export our products to customers in other countries at favorable or reasonable terms or at all.

Moreover, any change in the inflation, interest rates, foreign exchange rate, government policies, trade policies, exchange control regulations, food industry laws and regulations, social stability, political, legal, economic and diplomatic environment of the countries in which we or our customers operate, or the perception that these changes could occur, could adversely affect the financial and economic conditions in the countries in which we or our customers operate, as well as our business operation, financial condition and results of our operations.

The government grants received by our Group during the Track Record Period was non-recurring in nature.

During the Track Record Period, benefited from government grants and subsidies, we recorded government grants of RMB7.1 million, RMB17.0 million and RMB11.8 million for the year ended December 31, 2021, 2022 and 2023, respectively. These government grants include (i) government grants related to income, representing subsidies received from the local governments for the purpose of compensation of expenses incurred by our Group; and (ii) government grants related to assets, representing subsidies received for the purchase of assets. Our government grants are non-recurring in nature with no unfulfilled conditions or contingencies attached to them, and the amount of the grants were subject to the discretion of the relevant government authority. Since our receipt of the government grants and subsidies is subject to periodic time lags and changing government practice, our other income in a particular period may be higher or lower relative to other periods depending on the potential changes in these government grants and subsidies in addition to any business or operational factors that we may otherwise experience. There is no assurance that our Group will continue to receive similar government grants in the future, or at all. If there is any change, suspension or termination of government subsidies, our business, financial condition and results of operations could be materially and adversely affected.

We may not be able to obtain adequate financing to fund our capital requirements.

We have in the past funded our capital expenditures primarily by shareholder equity injections, cash generated from our operations and through credit facilities. We cannot assure you that cash generated from our operations will be sufficient to fund our future development and expansion plans. For us to grow and remain competitive, we may require new capital in the future. There can be no assurance that such additional financing will be available to us on reasonable terms or at all. Our ability to obtain additional capital in the future is subject to a variety of uncertainties beyond our control, including market conditions, credit availability and interest rates. If we are unable to raise sufficient capital in the future on commercially acceptable terms, we may have to abandon, delay, or postpone certain of our planned capital expenditures. Our inability to finance our planned capital expenditures could adversely affect our business, financial condition, results of operations. In addition, the terms and amount of capital raised through issuing equity securities may significantly dilute the interests of shareholders.

We are exposed to foreign exchange risks.

Our Group was subject to transactional currency exposures which arose from sales in currencies other than our functional currencies. During the Track Record Period, our sales in the PRC were settled in Renminbi while our international sales were mainly settled in U.S. dollars. For the years ended December 31, 2021, 2022 and 2023, approximately 22.0%, 23.0% and 23.0% of our sales were denominated in currencies other than the functional currencies of our operating subsidiaries making the sale, respectively.

Any future significant fluctuations in exchange rates will result in increases or decreases in our reported costs and earnings, and, accordingly, our business, financial condition, results of operations and prospects. If there is any material fluctuation in the exchange rates of one currency that we use to settle our payables against the other currency we received from our customers, and if we are unable to pass on the exchange risk to our customers, our results of operations and financial condition may be adversely affected. During the Track Record Period, we do not have a foreign currency hedging policy but we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Our share award scheme may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

On January 18, 2021, Linuo Investment and Cougar Holdings approved a share award scheme of Wuhan Youji, pursuant to which Linuo Investment (a substantial shareholder of Cougar Holdings) agreed to grant share awards representing an aggregate of 600 shares in Cougar Holdings to 104 eligible employees of our Group, including senior and middle management of Wuhan Youji at the time. We adopted share award scheme to provide incentives and rewards to eligible participants who contribute to the success of our operations. For the year ended December 31, 2021, 2022 and 2023, we recognized share-based compensation expenses of RMB0.4 million, RMB0.4 million and RMB0.4 million, respectively. To further incentivize our employees, we may grant additional incentive shares in the future. Issuance of additional shares with respect to such share award scheme may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share award scheme may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

Any potential claims or disputes by the Unresponsive Shareholders could materially and adversely affect our business and results of operations.

As detailed in "History, Reorganization and Corporate Structure — Reorganization — Step 2: Arrangements for Employee Trust Shareholders" in this prospectus, our Company, through Wuhan Youji, has actively sought to reach out to the beneficial shareholders, including survivors and heirs, with a view to resolve the historical issues with the Employee Trust. As of May 31, 2022, approximately 8.92% and 0.78% of the issued share capital of Cougar Holdings, were held by the Unresponsive Shareholders and the Retaining Shareholders, respectively, which were all transferred to Custodian Capital Ltd. subsequently. Since the Retaining Shareholders have signed custodial agreements and the Retaining Shareholders have agreed with such arrangements, our PRC Legal Advisors advise that such arrangements are not against their wills and will not infringe their rights and interests. In addition, considering (1) for the potential demands or claims of transferring or directly holding such shares in the Company held by the Unresponsive Shareholders, our Controlling Shareholders and Custodian Capital Ltd. have provided written undertaking that they will accommodate and resolve any such demands or claims, and will not dispose such entrusted shares without authorization and will assume potential liabilities for the Unresponsive Shareholders (if any); and (2) such arrangements have been approved by the Local Financial Regulatory Bureau of Wuhan (武漢市地方金融工作局) and relevant procedures have been went through pursuant to the instructions of the Wuhan Federation of Trade Union (武漢市總工會), our PRC Legal Advisors are of the view that under current circumstances, reasonable measures have been taken as far as possible to protect the interests of Unresponsive Shareholders so as to reduce the risk of potential disagreement raised by them. However, the Unresponsive Shareholders, if they appear in the future upon presenting proof of their beneficial title in the shares held by the Employee Trust, may not agree to such arrangement. As such, any potential claims or disputes by the Unresponsive Shareholders could have a material and adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY

We may not compete effectively and may lose our leading market position.

We operate in a competitive market and face competition in each of our business segments. Some of our competitors may have greater production capacity and manpower and other resources, stronger financial strengths, more established customer base, more diversified product offerings, more established brands and market recognition. We expect competition in our industry to intensify in the future. Intense competition will subject us to pricing pressure which may squeeze profit margins with respect to some of our products and reduce our revenue. If we fail to compete effectively or maintain our competitiveness in the market, our business and financial condition and operating results could be adversely affected.

Our business operations are subject to various registration, license, permit and certificate requirements. The loss of, expiry, withdrawal, revocation, downgrading or failure to obtain or renew any of such registrations, licenses, permits and certificates could materially and adversely affect our operations and financial results.

Pursuant to relevant PRC laws and regulations, we are required to hold various licenses and permits in order to conduct our business. We are also required to comply with applicable regulations and standards in relation to our production and the quality of our products. Our PRC Legal Advisors advise us and our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable material laws and regulations in the PRC, had obtained all the necessary registrations, licenses, permits and certificates for our business operations in the PRC and as confirmed by our Directors, we had not experienced any difficulty in the renewal of such registrations, licenses, permits and certificates in relation to our production and operations. For a summary of such registrations, licenses, permits or certificates, please refer to “Regulatory Overview” in this prospectus.

The registrations, licenses, permits and certificates that we currently hold may only be valid for a limited period of time and may be subject to periodic reviews and renewal by the relevant authorities. Any failure to comply with these laws and regulations, or the loss of or failure to renew our licenses and permits or any change in the government policies, could lead to temporary or permanent suspension of some of our business operations or the imposition of penalties on us, which could adversely affect our results of operations and financial condition.

RISKS RELATING TO DOING BUSINESS IN THE PRC

The national and regional economies in China and our business may be adversely affected by factors beyond our control such as natural disasters, acts of war or terrorism and epidemics, including COVID-19.

During the Track Record Period, we derived a substantial portion of our revenue from sales in the PRC. For the years ended December 31, 2021, 2022 and 2023, the revenue generated from our sales in the PRC accounted for approximately 77.8%, 78.2% and 76.9% of our total sales for the same periods, respectively. Our business is subject to general economic and social conditions in China. Certain factors beyond our control may adversely affect the economy, infrastructure and livelihood of people in the region where we conduct our business operations. Some regions in China may be susceptible to the threat of natural disasters such as earthquakes or epidemics such as Ebola and Monkeypox. Serious natural disasters and acts of war or terrorism may result in, among others, power shortages or failures, loss of life, injuries, destruction of assets and disruption of our business operations. Severe communicable disease outbreaks may cause a widespread health crisis that materially and adversely affects economic systems and financial markets. Any of these factors and others beyond our control could have an adverse effect on the overall business sentiment and environment, create uncertainties in the region where we conduct our business operations, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

The outbreak of pneumonia-like illness named COVID-19 has been spreading globally. COVID-19 is highly infectious and has resulted in deaths in the PRC and other countries. On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 as a public health emergency of international concern and subsequently characterized COVID-19 as a pandemic on March 11, 2020. The government authorities of the PRC and other countries may take various necessary measures from time to time to control the COVID-19 outbreak.

A prolonged outbreak and/or variant of COVID-19 could have a material adverse impact on our business operations, including potential suspension of our production and impact on delivery of our products to our customers and raw materials from our suppliers. Our business operations could be disrupted if any of our staff had or is suspected to have COVID-19 as we may be required to quarantine some or all of our staff and/or disinfect our production facilities. The duration and scale of such epidemic cannot be predicted or controlled by our Group and hence it may have significant and adverse impact on our business operations and operating results.

Changes in existing laws and regulations or additional or more stringent laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditure.

PRC environmental protection laws and regulations require manufacturers that may cause environmental wastes to adopt effective measures to control and dispose of industrial wastes. In addition, we are required to obtain clearances and authorizations from government authorities for the treatment and disposal of such discharge. As our manufacturing processes generate noise, waste water, waste gas and other industrial wastes, we are required to comply with national and local environmental regulations. If we fail to comply with environmental regulations, in particular, in relation to the use of or discharge of hazardous substances (if any), we may be required to pay potentially significant monetary damages and fines, suspend production or cease operations, which would have a material adverse effect on our business and operating results. There can also be no assurance that the PRC government will not change the existing laws or regulations, or impose additional or more stringent laws or regulations, or interpret or implement the existing laws and regulations more strictly in order to seek better environmental protection. Compliance with any of these additional or more stringent laws or regulations or more stringent implementations may cause us to incur additional capital expenditure, which we may be unable to pass on to our customers by increasing the prices for our products.

Our business operations may be affected by regulatory changes.

The establishment and many aspects of the business operations of our PRC subsidiaries are regulated by various local, provincial and national regulations. The PRC legal framework, qualification requirements and enforcement trends in the fine industrial chemical products industry may change, and we may not be able to respond to such changes in a timely manner. Such changes may also cause the compliance cost to increase, which may materially and adversely affect our business, financial condition and results of operations.

Changes to PRC laws, regulations and government policies in relation to environmental protection and occupational health and safety could adversely impact our business, financial condition and results of operations.

We are and will continue to be subject to PRC laws, rules and regulations concerning environmental protection as well as occupational health and safety requirements, including in relation to the operation of our facilities and the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances during our manufacturing processes and noise pollution. Any breach of the PRC environmental protection and health and safety regulations could subject us to a substantial fine, damage our reputation, cause delays in production or result in some or all of our production facilities being temporarily suspended or permanently shut down. There is no assurance that the national or local authorities will not enact additional laws or regulations or amend or enforce new regulations in a more rigorous manner. In case the PRC government amends such laws, rules and regulations to impose a more stringent standard, we may need to incur additional costs and expenses (including additional capital expenditure) in order to comply with the amended standard, which could result in increased operating costs and thus adversely affecting our financial condition and results of operations.

We may rely on dividends and other distributions on equity paid by our operating subsidiaries to fund cash and financing requirements. Limitations on the ability of our operating subsidiaries in the PRC to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company incorporated in the Cayman Islands and conduct substantially all of our operations through our PRC subsidiaries. We will rely on dividends paid by our PRC subsidiaries for our future cash needs that cannot be provided by equity issuance or borrowings outside of the PRC, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. Under the PRC laws, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and subsidiaries in the PRC are also required to set aside part of their after-tax profits to fund certain reserve funds that are not distributable as cash dividends. As a result, our PRC subsidiaries will be restricted in their ability to transfer the net profits to us in the form of dividends. Other factors such as cash flow conditions, restrictions on distributions contained in the PRC subsidiaries' articles of associations, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect the ability of our subsidiaries in the PRC to make distributions to our Company. If our PRC subsidiaries cannot pay dividends due to government policy and regulations or contractual restrictions, or because they cannot generate the requisite cash flow, we may not be able to pay dividends, service our debt or pay our expenses, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be considered a "PRC resident enterprise" under the CIT Law, which could result in our global income being subject to a 25% PRC enterprise income tax.

Our Company is incorporated in the Cayman Islands. We conduct our business primarily through our operating subsidiaries in the PRC. Under the CIT Law, enterprises established under the laws of foreign countries or regions and whose "de facto management bodies" are located within the PRC are considered "PRC resident enterprises" and thus will generally be subject to an CIT at the rate of 25% on their global income. On December 6, 2007, the State Council adopted the CIT Regulations, which became effective on January 1, 2008 and was amended on April 23, 2019, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises." Currently, substantially all of our management is based in the PRC, and may continue to be based in the PRC in the future. On April 22, 2009, a circular issued by the State Administration of Taxation in respect of the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as "resident enterprises" clarified that dividends and other income paid by such "resident enterprises" will be considered to be Chinese source income, subject to withholding tax in the PRC, currently at the rate of 10%, when recognized by non-Chinese enterprise shareholders. The circular also subjects such "resident enterprises" to various reporting requirements with PRC tax authorities. Under the implementation regulations to the enterprise income tax, a "de facto management body" is defined as a body that has material and overall management and control over the production and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the circular sets forth the criteria for determining whether "de facto management bodies" are located in the PRC for overseas incorporated, domestically controlled enterprises. However, as the circular only applies to enterprises established outside of the PRC which are controlled by Chinese enterprises or groups of Chinese enterprises, it remains unclear how the tax authorities will interpret the location of "de facto management bodies" of overseas incorporated enterprises. As such, despite the fact that substantially all of our management members are currently located in China, it remains unclear whether the PRC tax authorities would require our overseas registered entities to be treated as PRC resident enterprises.

If we were considered a PRC resident enterprise, we would be subject to the CIT at the rate of 25% on our global income, and any dividends or gains on the sale of our Shares received by our non-resident enterprise shareholders may be subject to a withholding tax at a rate of up to 10%. In addition, although the CIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from CIT, it remains unclear as to the qualification requirements for this exemption and whether dividend payments made by our PRC operating subsidiaries to us would meet such qualification requirements if we were considered a PRC resident enterprise for the purpose. If our global income were to be taxed under the CIT Law, our financial position and operating results would be materially and adversely affected.

Failure by our Shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from distributing profits and could expose us and our PRC resident Shareholders to liabilities under PRC law.

Circular 37, which was promulgated by SAFE and became effective on July 4, 2014, requires a PRC individual resident (the "**PRC Resident**") to file a "Registration Form of Overseas Investments Contributed by Domestic Individual Residents" and register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the "**Overseas SPV**"), that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, any major change of the PRC Resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the overseas SPV's registered capital, share transfer or swap, and merger or division. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) released in February 2015 by SAFE, as amended in December 2019, or SAFE Circular 13, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under Circular 37 from June 2015.

The failure to comply with registration procedures set forth in SAFE Circular 37 may result in restriction being imposed on the foreign exchange activities of our PRC subsidiaries, including the payment of dividends and other distributions to us and the capital inflow from us and may also subject the relevant PRC Residents and our PRC subsidiaries to penalties under PRC foreign exchange administration regulations. Further, failure to comply with various SAFE registration requirements described above would result in liability for foreign exchange evasion under PRC laws. It remains unclear how this regulation, and any further regulation concerning offshore or cross-border transaction, will be interpreted, amended and implemented by the relevant government authorities, we cannot predict how these regulations will affect our business operation or future strategies.

Fluctuations in exchange rates may affect the value of your investment and limit our ability to utilize our cash.

The conversion and remittance of foreign currencies are subject to the foreign exchange regulations in the PRC. We receive part of our payments from our customers in Renminbi and may need to convert and remit Renminbi into foreign currencies for the payment of dividends, if any, to our Shareholders. Under the current foreign exchange regulations in the PRC, following the completion of the Global Offering, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require prior approval from the SAFE, although we are still required to present the relevant documentary evidence and conduct the transactions at designated foreign exchange banks in the PRC that have the licenses to carry out foreign exchange business. We will be able to pay dividends in foreign currencies without prior approval from SAFE or its local branches by complying with such procedural requirements. However, in case foreign currencies become scarce in the PRC, we may not be able to pay dividends in foreign currencies to our Shareholders. Foreign exchange transactions under our capital account will continue to be, to certain extent, subject to foreign exchange controls and require the approval of the SAFE or its local branches. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

Our sales in the PRC are settled in Renminbi while our international sales are mainly settled in U.S. dollars. Any significant fluctuations in the exchange rates between these currencies could adversely affect our business and financial condition and operating results. These exchange rates may also be affected by, among other things, the policies of the PRC Government and changes in the political and economic conditions both internationally and in the PRC. Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollar, has been based on rates set by the People's Bank of China, which are based on interbank foreign exchange market rates on the previous day and current exchange rates on the world financial markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The exchange rate between Renminbi and the U.S. dollar may indirectly affect the exchange rates between Renminbi and Euro. The value of Renminbi against Hong Kong dollar has been changing on a daily basis. The PRC government has since then made, and may make, further adjustments to the exchange rate system in the future.

If Renminbi appreciates or depreciates against other currencies significantly, and as we need to convert and remit the proceeds from the Global Offering and future financing into Renminbi for our operations, appreciation or depreciation of the Renminbi against the relevant foreign currencies would decrease or increase Renminbi amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of Renminbi against Hong Kong dollar could reduce the amount of any cash dividends on our Shares in Hong Kong dollars.

Certain of our lease agreements have not been registered with the relevant government authorities and may be subject to fines.

We have leased several properties in the PRC. As of the Latest Practicable Date, certain of our lease agreements had not been registered with the relevant government authorities. Under the relevant PRC laws and regulations, the lease agreements need to be registered and filed with the relevant government. According to our PRC Legal Advisors, while the lack of registration will not affect the validity and enforceability of the lease agreements, a fine ranging from RMB1,000 to RMB10,000 may be imposed on the parties for each non-registered lease. We may incur additional expenses if any fine were imposed upon us. The registration of some lease agreements requires additional steps to be taken by the respective landlords which are beyond our control. We cannot assure you that the landlords will be cooperative and the registration of these lease agreements and other lease agreements that we may enter into in the future can be completed.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the Global Offering to make additional capital contributions or loans to our major PRC subsidiaries.

In utilizing the proceeds of the Global Offering in the manner described in the section headed "Future Plans and Use of Proceeds" in this prospectus or any other debt or equity offering, as an offshore holding company of our PRC operating subsidiaries, we may make loans or additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to the PRC regulations and approvals. For example, loans made by our Company to our PRC subsidiaries to finance their activities cannot exceed the statutory limits and must be registered with SAFE or its local counterpart.

In addition, any capital contributions made to our PRC subsidiaries must be filed with the MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain such government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions made by us to our PRC subsidiaries. If we fail to receive such registrations or approvals, our ability to use the net proceeds of the Global Offering could be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

We face tax risks with respect to the indirect transfers of equity interests in the PRC resident enterprises in connection with the Reorganization.

On February 3, 2015, SAT promulgated the Bulletin on Several Issues concerning the Enterprise Income Tax on Indirect Asset Transfer by Non-Resident Enterprises (Bulletin [2015] No. 7, "**Bulletin 7**") (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》). Bulletin 7 is the latest regulatory instrument on indirect transfer and replace certain provisions of two previous sets of guidance issued in 2009 and 2011: the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-Resident Enterprises ([2009] Circular 698, "**Circular 698**") (《關於加強非居民企業股權轉讓企業所得稅管理的通知》) and the Bulletin on Several Issues Concerning the Administration of Income Tax on Non-resident Enterprises (Bulletin [2011] No. 24, "**Bulletin 24**") (《關於非居民企業所得稅管理若干問題的公告》). Tax matters occurred but have not been settled before 3 February 2015, the date of implementation of Bulletin 7, shall be governed by Bulletin 7.

Pursuant to Bulletin 7, an indirect transfer of equities and other assets of a Chinese resident enterprises ("**Chinese taxable assets**") conducted by non-resident enterprises through arrangements that do not have reasonable commercial purposes, which results in avoidance of EIT, shall be deemed as direct transfer of Chinese taxable assets and thus subject to tax in the PRC.

In connection with the Reorganization, our Group conducted transactions that may be deemed to be indirect transfers of equity interests in the PRC subsidiaries. If the relevant PRC tax authorities hold that these transactions do not have reasonable commercial purpose and were conducted for the purpose of avoiding PRC tax, our Group may incur PRC tax liability for such transaction. However, it remains unclear how the PRC tax authorities will implement and enforce Bulletin 7 and whether it will subject our Group to any PRC tax liabilities.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us and our Directors and senior management.

Substantially all of our assets are located in the PRC. In addition, almost all of our Directors and executive officers reside in the PRC and their personal assets may also be in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and executive officers. A judgment of a court from a foreign jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a corresponding treaty with the PRC or if the judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares and the liquidity and market price of our Shares may be volatile.

Prior to completion of the Global Offering, there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the Global Offering. The Offer Price is the result of negotiations between our Company and the Sole Overall Coordinator (for itself and on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. The market price of our Shares may drop below the Offer Price at any time after completion of the Global Offering.

Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

If the final Offer Price is higher than the net tangible asset value per Share of the outstanding Shares issued to our existing Shareholders immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in terms of the pro forma consolidated net tangible asset value. In addition, we may consider offering and issuing additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share.

The price and the trading volume of our Shares may be volatile which could result in substantial losses for investors purchasing our Shares under the Global Offering.

The price and trading volume of our Shares may be volatile. The market price of our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- actual or anticipated variations of our operating results;
- loss of key raw material suppliers;

- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, depositions, strategic alliances or joint ventures;
- addition or departure of key senior management or other key personnel;
- fluctuations in stock market price and volume;
- regulatory or legal developments, including involvement in litigation; and
- general economic, political and stock market conditions in Hong Kong, the PRC and elsewhere in the world.

In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced increasing price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. Such market fluctuations may materially and adversely affect the market price of our Shares.

Future sale or major divestment of Shares by our Controlling Shareholders or our investors could materially and adversely affect the prevailing market price of our Shares.

The future sale of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sales, by our Controlling Shareholders or investors could materially and adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Although our Controlling Shareholders have agreed to a lock-up on their Shares, any major disposal of our Shares by any of such Controlling Shareholders upon expiry of the relevant lock-up periods (or the perception that these disposals may occur) may cause the prevailing market price of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

Our interests may conflict with those of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders' best interests.

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling shareholders could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatizations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of our other shareholders. Consequently, our Controlling

Shareholders' interests may not necessarily be in line with the best interests of our Company or the interests of our other Shareholders, which may have a material and adverse effect on our Company's business operations and the price at which our Shares are traded on the Stock Exchange.

Future offerings or sales could adversely affect the prevailing market price of our Shares.

Future offerings or sales of our Shares by us or our Controlling Shareholders, or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of our Shares to decline. Following the expiration of their respective lock-up periods, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in the future at a time and at a price deemed appropriate. In addition, if we issue additional Shares or share options or other securities in the future, you may experience further dilution.

Certain industry statistics contained in this prospectus may not be accurate and should not be unduly relied upon.

Certain facts and statistics in this prospectus related to the PRC, its economy and the industries in which we operate within the PRC are derived from official government publications generally believed to be reliable. We believe that the sources of these facts and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. These facts and statistics have not been independently verified by us, the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated with the same degree of accuracy as may exist elsewhere. In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.

This prospectus contains forward looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

Included in this prospectus are various forward-looking statements that are based on various assumptions. The future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to "Forward-looking Statements" in this prospectus.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

We strongly caution you not to rely on any information contained in the press articles or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, including certain financial information, industry comparisons, and/or other information about the Global Offering and us. There may continue to be additional press and media coverage on us and this Global Offering. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent with, or conflicts with, the information contained in this prospectus, we disclaim it, and accordingly you should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the information included in this prospectus.

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive directors must be ordinarily resident in Hong Kong.

Since our principal business and operations are substantially located, managed and conducted in the PRC through its PRC subsidiaries, our Directors consider that appointment of additional executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to or appropriate for the Group. As none of our executive Directors are ordinarily based in Hong Kong, we do not, and do not contemplate in the foreseeable future that we will, have a sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and our Company:

(a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Chen Ping (陳平), an executive Director and Ms. Lai Ho Yan (賴浩恩), one of our company secretaries. Mr. Chen confirms that he possesses valid travel documents and can readily travel to Hong Kong and Ms. Lai is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon the request of the Stock Exchange and will be readily contactable by telephone and email. Each of the authorized representatives is authorized to communicate on behalf of our Company with the Stock Exchange;

(b) the authorized representatives have means to contact our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matter;

(c) all of our Directors have confirmed that they possess or can apply for and renew valid travel documents to visit Hong Kong and would be able to meet with the Stock Exchange upon reasonable notice and within a reasonable period. Each of our Directors will be readily contactable by telephone and email, and is authorized to communicate on behalf of our Company with the Stock Exchange;

(d) each of our Directors has provided his/her respective contact details, including office phone numbers, mobile phone numbers, email addresses and addresses, to the Stock Exchange and the authorized representatives. In the event that any Director expects to travel or otherwise be out of office, he/she will provide the contact details and his/her place of accommodation to the authorized representatives;

(e) our Company has appointed BOCOM International (Asia) Limited as compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will have access at all times to the authorized representatives, our Directors and other senior management of our Company, and will act as an additional channel of communication with the Stock Exchange for the period commencing on the date of the listing of the Shares on the Main Board and ending on the date when our Company distributes its annual report for the first full financial year in accordance with Rule 13.46 of the Listing Rules; and

(f) meetings between the Stock Exchange and our Directors can be arranged through the authorized representatives or the compliance adviser of our Company or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in the authorized representatives and/or its compliance adviser.

APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, we must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. According to Rule 3.28 of the Listing Rules, our company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

The Stock Exchange considers the following academic or professional qualifications to be acceptable:

(a) a member of The Hong Kong Chartered Governance Institute;

(b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and

(c) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In assessing "relevant experience," the Stock Exchange will consider the individual's:

(a) length of employment with the issuer and other issuers and the roles he or she played;

(b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;

(c) relevant training taken and/or to be taken in addition to be the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

We have appointed Mr. Chen Ping (陳平) as one of our joint company secretaries. Mr. Chen joined our Group in October 2010 as the board secretary and has served as a director of Wuhan Youji since August 2016, and is primarily responsible for the Board affairs, corporate governance and capital operations of our Group. Although our Company believes, having regard to Mr. Chen's past experience in handling corporate matters, that he has a thorough understanding of our Company and the Board, Mr. Chen does not possess the requisite qualifications required by Rule 3.28 of the Listing Rules. Therefore, our Company has appointed Ms. Lai Ho Yan (賴浩恩), who is a Hong Kong resident and possesses such qualifications, to be a joint company secretary to assist Mr. Chen in the compliance matters for the Listing as well as other Hong Kong regulatory requirements for a period of three years commencing from the Listing Date. For the biographies of our joint company secretaries, please refer to "Directors and Senior Management – Joint Company Secretaries" in this prospectus. Over such three-year period, we will implement measures to assist Mr. Chen to satisfy the requisite qualifications as prescribed in Rule 3.28 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rules 8.17 and 3.28 of the Listing Rules in relation to Mr. Chen's appointment as joint company secretary pursuant to Chapter 3.10 of the Guide for New Listing Applicants on the following conditions:

(a) Mr. Chen must be assisted by Ms. Lai, who possesses the qualification and experience as required under Rule 3.28 of the Listing Rules and is appointed as a joint company secretary throughout the validity period of the waiver; and

(b) the waiver is valid for a period of three years from the Listing Date and will be revoked immediately if and when Ms. Lai ceases to provide such assistance or if there are material breaches of the Listing Rules by our Company.

It is anticipated that Mr. Chen will gain experience with the assistance of Ms. Lai. Before the end of the initial three-year period, we will evaluate the then experience of Mr. Chen in order to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied at the time and on-going assistance would be needed. We would then endeavor to demonstrate to the satisfaction of the Stock Exchange that Mr. Chen, having had the benefit of Ms. Lai's assistance for three years, would then have acquired the "relevant experience" within the meaning of Rule 3.28 of the Listing Rules so that a further waiver would not be necessary.

CONTINUING CONNECTED TRANSACTIONS

We have entered into, and expect to continue, certain transactions which will constitute our continuing connected transactions under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with Chapter 14A of the Listing Rules. For details, please refer to "Continuing Connected Transactions" in this prospectus.

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which our Directors (including any proposed Director who is named as such in this prospectus) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

CSRC FILING

The CSRC issued a notification on January 2, 2024 confirming our completion of the filing procedures for the Listing and the Global Offering. In issuing such notification, the CSRC accepts no responsibility for our financial soundness or the accuracy of any of the statements made or opinions expressed in this prospectus.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus sets out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and subject to the conditions set out herein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and any of the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Overall Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Overall Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

If, for any reason, the Offer Price is not agreed between the Sole Overall Coordinator (for itself and on behalf of the Underwriters) and the Company, the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please refer to "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in "Structure and Conditions of the Global Offering" in this prospectus; and the procedures for applying for the Hong Kong Offer Shares are set out in "How to Apply for Hong Kong Offer Shares" in this prospectus.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in "Structure and Conditions of the Global Offering" in this prospectus.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option). Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, June 18, 2024. No part of our equity or debt securities is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of HKSCC and HKSCC Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisors for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal share registrar, International Corporation Services Ltd., in the Cayman Islands. Our Hong Kong register of members will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong.

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Renminbi or U.S. dollars have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following exchange rates: RMB0.9084:HK$1.00 and US$1.00:HK$7.8245.

No representation is made that any amounts in Renminbi or U.S. dollars were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Zou Xiaohong	Room 1, 1/F No. 101, Jianqiao New Village Hanyang District, Wuhan Hubei China	Chinese
Mr. Chen Ping	5-101 Building 65 63 Huanhu Road Dongxihu District, Wuhan Hubei China	Chinese
Non-executive Directors		
Mr. Gao Lei	Room 101, No. 2 Lane 1889, Hongqiao Road Changning Shanghai China	Chinese
Mr. Shen Yingming	No. 5 Villa, Linuo Technology Park (North) No. 30766, Jingshi East Road Licheng District, Jinan Shandong China	Chinese
Ms. Li Deye	Room 102, Unit 4, Building 5 Linuo Group, No. 30099 Jingshi East Road Licheng District, Jinan Shandong China	Chinese
Independent non-executive Directors		
Dr. Liu Zhongdong	No. 7, Unit 4, Building 5 No. 101 Zhongyuan East Road Erqi District, Zhengzhou Henan China	Chinese
Dr. Yuan Kang	Room 5A, Unit 1, Building 621 Chengtou Hancheng, Chukang Road Hongshan District, Wuhan Hubei China	Chinese

Name	Residential address	Nationality
Mr. Liu Kai Yu Kenneth	Flat C, 16/F Braemar Hill Mansions 39 Braemar Hill Road North Point Hong Kong	British

Further information about our Directors and other senior management members are set out in "Directors and Senior Management."

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**BOCOM International (Asia) Limited** (a licensed corporation registered for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO) 9/F, Man Yee Building 68 Des Voeux Road Central Central, Hong Kong
Sole Overall Coordinator and Sole Global Coordinator	**BOCOM International Securities Limited** 15/F, Man Yee Building 68 Des Voeux Road Central Central, Hong Kong
Joint Bookrunners and Capital Market Intermediaries	**BOCOM International Securities Limited** 15/F Man Yee Building 68 Des Voeux Road Central Central Hong Kong **ABCI Capital Limited** 11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong **CCB International Capital Limited** 12/F CCB Tower 3 Connaught Road Central Central Hong Kong **CEB International Capital Corporation Limited** 34-35/F, Everbright Centre 108 Gloucester Road Wan Chai Hong Kong

China Everbright Securities (HK) Limited
33/F, Everbright Centre
108 Gloucester Road
Wan Chai
Hong Kong

China Industrial Securities International Capital Limited
32/F, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan
Hong Kong

CMBC Securities Company Limited
45/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

Essence International Securities (Hong Kong) Limited
39/F, One Exchange Square
Central
Hong Kong

Fortune Origin Securities Limited
404-405, 4/F, Nan Fung Tower
88 Connaught Road Central
Central
Hong Kong

Futu Securities International (Hong Kong) Limited
34/F, United Centre
95 Queensway
Admiralty
Hong Kong

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

Phillip Securities (Hong Kong) Limited
11/F United Centre
95 Queensway
Hong Kong

Quam Securities Limited
5/F and 24/F (Rooms 2401 and 2412)
Wing On Centre
111 Connaught Road Central
Hong Kong

SPDB International Capital Limited
33/F, SPD Bank Tower, One Hennessy
1 Hennessy Road
Hong Kong

Yue Xiu Securities Company Limited
Rooms Nos. 4917-4937, 49/F
Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

Zhongtai International Securities Limited
19/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Lead Managers and Capital Market Intermediaries

BOCOM International Securities Limited
15/F Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

CCB International Capital Limited
12/F CCB Tower
3 Connaught Road Central
Central
Hong Kong

China Sunrise Securities (International) Ltd
Unit 4502, 45/F, The Center
99 Queen's Road Central
Hong Kong

CEB International Capital Corporation Limited
34-35/F, Everbright Centre
108 Gloucester Road
Wan Chai
Hong Kong

China Everbright Securities (HK) Limited
33/F, Everbright Centre
108 Gloucester Road
Wan Chai
Hong Kong

China Industrial Securities International Capital Limited
32/F, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan
Hong Kong

CMBC Securities Company Limited
45/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

CNI Securities Group Limited
Unit A 36/F United Asia Finance Centre
333 Lockhart Road
Wanchai
Hong Kong

Essence International Securities (Hong Kong) Limited
39/F, One Exchange Square
Central
Hong Kong

Fortune Origin Securities Limited
404-405, 4/F, Nan Fung Tower
88 Connaught Road Central
Central
Hong Kong

Futu Securities International (Hong Kong) Limited
34/F, United Centre
95 Queensway
Admiralty
Hong Kong

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

Maxa Capital Limited
Unit 2602, 26/F, Golden Centre
188 Des Voeux Road Central
Sheung Wan
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Principal Place of Business in Hong Kong	5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
Company's Website	**www.chinaorganic.com** *(The information on the website does not form part of this prospectus)*
Joint Company Secretaries	**Mr. Chen Ping** 5-101 Building 65 63 Huanhu Road Dongxihu District, Wuhan Hubei China **Ms. Lai Ho Yan (ACG, HKACG)** 5/F, Manulife Place 348 Kwun Tong Road Kowloon Hong Kong
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This and other sections of this prospectus contain information relating to the industry in which we operate. Certain information and statistics set forth in this section have been extracted from the Frost & Sullivan Report issued by Frost & Sullivan, an independent market research agency, which we commissioned, and from various official government publications and other publicly available publications. Information and statistics from official government sources have not been independently verified by us, the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to their accuracy.

SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the global and the PRC toluene and toluene derivative products industry. The report prepared by Frost & Sullivan is referred to in the prospectus as the Frost & Sullivan Report. A total fee of RMB1,180,000 was paid to Frost & Sullivan for the preparation of the report, which we believe reflects market rates for reports of this type. Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

The Frost & Sullivan Report was undertaken through both primary and secondary research obtained from various sources using intelligence collection methodologies. Primary research involved discussing the status of the industry with certain leading industry participants across the industry value chain and conducting interviews with relevant parties to obtain objective and factual data and prospective predictions. Secondary research involved reviewing information integration of data and publication from publicly available sources, including official data and announcements from government agencies, and company reports, independent research reports and data based on Frost & Sullivan's own data base.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions (i) the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period and (ii) industry key drivers are likely to drive the global and the PRC toluene and toluene derivative products industry in the forecast period. Frost & Sullivan believes that the basic assumptions used in preparing the Frost & Sullivan Report, including those used to make future projects, are factual, correct and not misleading. Frost & Sullivan has independently analyzed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Frost & Sullivan research may be affected by the accuracy of these assumptions and the choice of these primary and secondary sources.

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have impact on the information therein.

OVERVIEW OF GLOBAL TOLUENE AND TOLUENE DERIVATIVE PRODUCTS INDUSTRY

Overview of Synthetic Organic Chemistry Industry

Organic compounds are a type of chemical compounds where one or more than one carbon covalently bonded with each other and with other atom like nitrogen, oxygen, halogen etc., such as, toluene (C_6H_5Cl), methane (CH_4), ethane (C_2H_6), benzene (C_6H_6), Chloroethane (C_2H_5Cl) etc. Downstream applications include food & beverages, pharmaceuticals, pesticides, agrochemicals, water treatment, crop protection, personal care products & cosmetics, fertilizers, automotive industry, gasoline additives, polymers, and chemicals. As an important part of global chemistry market, the global synthetic organic chemistry industry has demonstrated significant growth driven by research and development, growing industrialization and downstream demand. Many advanced researches are being carried out with huge investments in research and development.

Introduction of Toluene and Toluene Derivative Products

Toluene is commonly used as one of the most important chemical raw materials. It is a colorless, transparent, volatile liquid with special aromatic fragrance at room temperature. It is mainly used for blending gasoline components and the main production of toluene derivatives, explosives, dye intermediates and drugs. Toluene derivative products can be produced through various reaction processes, including oxidation, chlorination of toluene and ammonification of benzoic acid.

- Toluene oxidation products: Benzoic acid and sodium benzoate are important toluene oxidation products. Benzoic acid, which is white crystal or powder, is widely used as preservative and intermediate in food, pesticide, medicine, printing, and dyeing industries. Sodium benzoate, which is white crystal or colorless powder, is mainly used in the pharmaceutical industry, printing and dyeing industry, plant genetic research and other fields.

- Toluene chlorination products: Benzyl chloride and benzyl alcohol are the most common toluene chlorination products. Benzyl chloride, a colorless transparent liquid with a pungent odor, is an important organic synthesis intermediate, used in the manufacture of spices, dyes, drugs, and synthetic resins. Benzyl alcohol, a colorless liquid, is used to make flavors and pharmaceutical raw materials, and can be used as a solvent for preservatives, paints, and dyes.

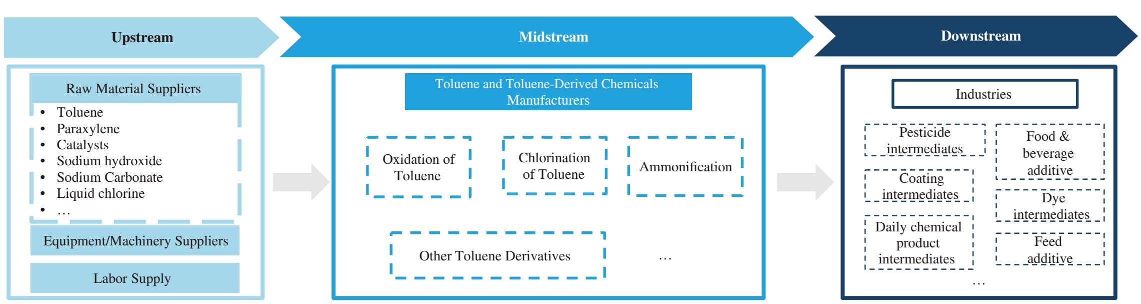
- Benzoic acid ammonification products: Benzonitrile and benzoguanamine are typical benzoic acid ammonification products. Benzonitrile is a colorless oily liquid with an almond smell. It is mainly used as a pesticide, dye intermediate, solvent antioxidant, and solvent for other organic substances. Benzoguanamine is a white crystalline powder, which is mainly used for making thermosetting resins, modified resins, amino coatings, plastics, pesticides and dyes.

- Other fine chemical products: Other fine chemical products mainly include benzyl acetate and p-methyl chlorbenzy. Benzyl acetate is a kind of colorless liquid with sweet, floral fruity odor, which is mainly used for the production of edible flavors and fragrances. P-methyl benzyl chloride is a colorless/white/yellow low melting solid or liquid, which is used as pharmaceutical intermediate.

Industry Value Chain Analysis

The main market participants of the industry chain for toluene and toluene derivative products include toluene suppliers (upstream), specialty chemicals manufacturers (midstream), and intermediate manufacturers (downstream). Leading companies cooperate with upstream chemical companies to guarantee the continuous supply of raw materials. The upstream of toluene and toluene derivative products is the raw material suppliers. Chinese toluene market fluctuates mostly around supply and demand fundamentals and changes at the macro level. The influencing factors of the PRC's toluene market are also undergoing major changes due to public health and safety measures, the state's control over the bulk commodity market, and the downward shift of industry profits. The global toluene market has long been affected by the macroeconomic and financial situation, the cost side effect, and the supply and demand changes in the industry. The midstream includes specialty chemical manufacturers that produce toluene derivative products. Different products are produced based on chemical technology owned by different companies. The downstream are mainly companies that produce chemical intermediates covering various industries including food & beverage additive, feed additive, coating intermediates and pesticide intermediates.

The sales channels of toluene and toluene derivative product industry includes (i) direct sales; (ii) distribution sales; and (iii) products trading. Distributorship model is considered the norm in the industry as the distribution network (i) extends sales across different provinces and cities in the PRC domestically and across different countries internationally, and allows for the penetration of the Group's products, (ii) partially shifts the credit risk from manufacturers to distributors and (iii) facilitates the formulation of sales and marketing strategy based on market trends and intelligence from different geographic and customer segments.



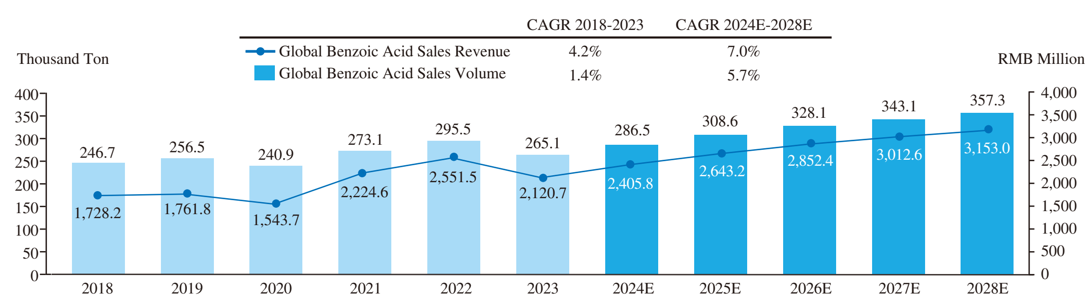
Source: Frost & Sullivan Report

Global and the PRC Sales Volume and Sales Revenue of Benzoic Acid

The global production capacity of benzoic acid reached approximately 840.0 thousand tons in 2023. Leading benzoic acid manufacturers have been expanding production capacities to meet the increasing downstream market demand. It is expected that the global production capacity will increase to approximately 906.0 thousand tons by 2028. The global sales volume of benzoic acid increased from approximately 246.7 thousand tons in 2018 to approximately 265.1 thousand tons in 2023, representing a CAGR of 1.4%. The global sales revenue of benzoic acid increased from approximately RMB1,728.2 million in 2018 to approximately RMB2,120.7 million in 2023, representing a CAGR of 4.2%. In 2020, the supply chain and logistics crisis caused by COVID-19 pandemic materially affected chemicals manufacturers. Many manufacturing facilities were forced to shut down or operate at reduced capacity, leading to lower production capacity for most raw materials. During the same period, the sales volume of the PRC benzoic acid increased from approximately 125.2 thousand tons to approximately 149.5 thousand tons, representing a CAGR of 3.6%. The sales revenue increased from approximately RMB974.5 million to approximately RMB1,266.0 million, representing a CAGR of 5.4%.

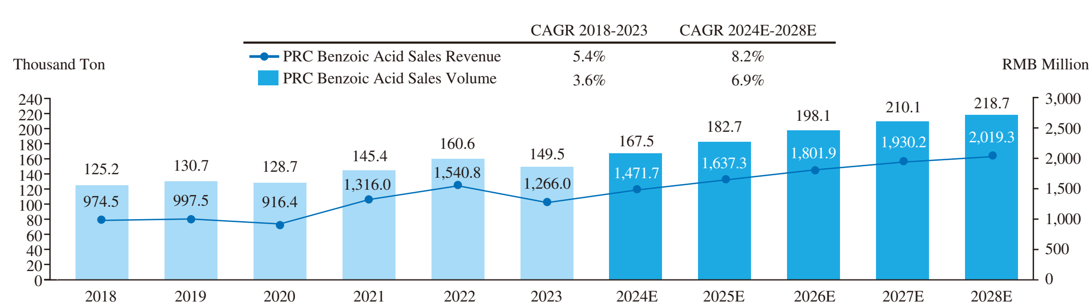
Antibiotic-treated animals has been banned from production globally because countries and international organizations gradually call for less use of antibiotics in healthy animals for growth promotion and disease prevention. The reduction in antibiotics will largely lead to the increase in sales of benzoic acid. With increasing needs for downstream products such as non-phthalate plasticizers, the global sales volume of benzoic acid is estimated to reach 357.3 thousand tons in 2028 from 286.5 thousand tons in 2024, representing a CAGR of 5.7%. The global sales revenue of benzoic acid is estimated to reach RMB3,153.0 million in 2028 from RMB2,405.8 million in 2024, representing a CAGR of 7.0%. The PRC sales volume of benzoic acid is expected to reach 218.7 thousand tons in 2028 with a CAGR of 6.9% from 2024, and the sales revenue is expected to reach RMB2,019.3 million in 2028 from RMB1,471.7 million in 2024, with a CAGR of 8.2%.

Sales Volume and Sales Revenue of Benzoic Acid (Global), 2018-2028E



Source: Frost & Sullivan Report

Sales Volume and Sales Revenue of Benzoic Acid (The PRC), 2018-2028E



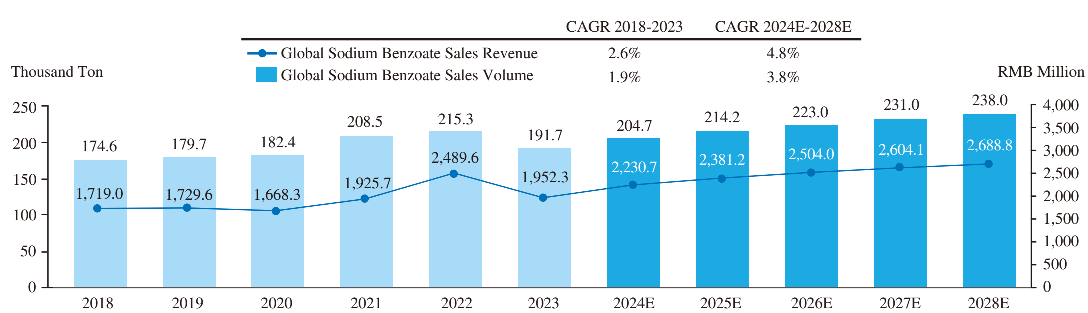
Source: Frost & Sullivan Report

Global and the PRC Sales Volume and Sales Revenue of Sodium Benzoate

Global sodium benzoate production capacity is estimated to increase from approximately 363.0 thousand tons in 2023 to 400.7 thousand tons in 2028, benefiting from leading companies' insight into downstream demand and outstanding capacity expansion layouts. The global sales volume of sodium benzoate increased from approximately 174.6 thousand tons in 2018 to approximately 191.7 thousand tons in 2023, representing a CAGR of 1.9%. Correspondingly, the global sales revenue of sodium benzoate slightly increased from approximately RMB1,719.0 million in 2018 to approximately RMB1,952.3 million in 2023, representing a CAGR of 2.6%. During the same period, the sales volume of the PRC sodium benzoate increased from 78.6 thousand tons to approximately 102.0 thousand tons, representing a CAGR of 5.4%. The PRC sales revenue increased from RMB859.1 million to RMB1,154.6 million.

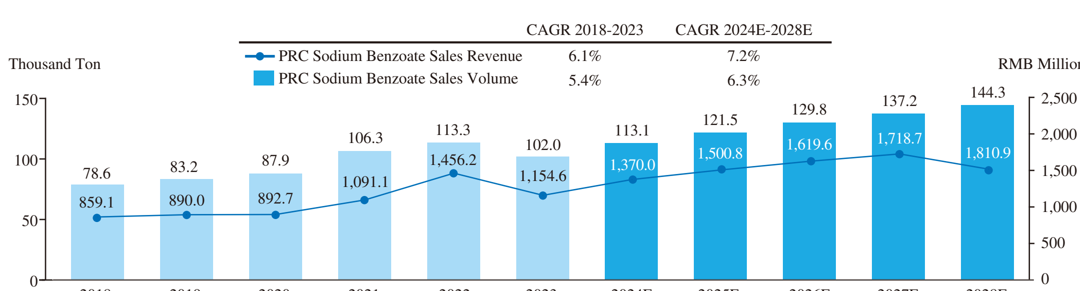
Driven by the increasing demands from downstream markets such as personal care market, both sales volume and revenue of sodium benzoate are expected to further expand over the forecast period. The global sales volume of sodium benzoate is estimated to reach 238.0 thousand tons in 2028 from 204.7 thousand tons in 2024, with a CAGR of 3.8% over the prediction period. The global sales revenue of sodium benzoate is estimated to reach RMB2,688.8 million in 2028 from RMB2,230.7 million in 2024, with a CAGR of 4.8% over the prediction period. The PRC sales volume of sodium benzoate is estimated to reach 144.3 thousand tons in 2028 from 113.1 thousand tons in 2024, with a CAGR of 6.3% over the prediction period. The PRC sales revenue of sodium benzoate is estimated to reach RMB1,810.9 million in 2028 from RMB1,370.0 million in 2024, with a CAGR of 7.2% over the prediction period.

Sales Volume and Sales Revenue of Sodium Benzoate (Global), 2018-2028E



Source: Frost & Sullivan Report

Sales Volume and Sales Revenue of Sodium Benzoate (The PRC), 2018-2028E



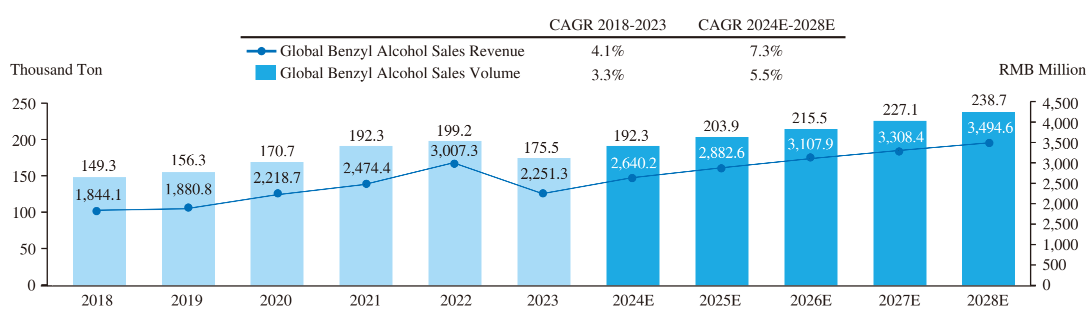
Source: Frost & Sullivan Report

Global and the PRC Sales Volume and Sales Revenue of Benzyl Alcohol

In 2023, the global production capacity of benzyl alcohol reached 260.0 thousand tons. The global sales volume of benzyl alcohol increased from approximately 149.3 thousand tons in 2018 to approximately 175.5 thousand tons in 2023, representing a CAGR of 3.3%. The global sales revenue of benzyl alcohol increased from approximately RMB1,844.1 million in 2018 to approximately RMB2,251.3 million in 2023, representing a CAGR of 4.1%. During the same period, the sales volume of the PRC benzyl alcohol increased from approximately 78.6 thousand tons in 2018 to approximately 98.5 thousand tons in 2023, representing a CAGR of 4.6%. The PRC sales revenue increased from approximately RMB1,048.3 million in 2018 to approximately RMB1,364.1 million in 2023, representing a CAGR of 5.4%.

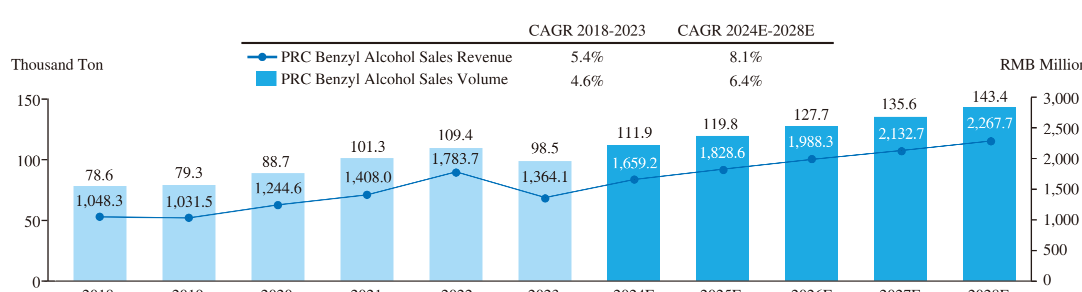
Driven by the global economic recovery and the increasing application and use of benzyl alcohol, especially in pharmaceuticals, consumer electronics, additive materials, and home improvement industries, the global sales volume of benzyl alcohol is estimated to reach 238.7 thousand tons in 2028 from 192.3 thousand tons in 2024, representing a CAGR of 5.5%. The global sales revenue of benzyl alcohol is estimated to reach RMB3,494.6 million in 2028 from RMB2,640.2 million in 2024, representing a CAGR of 7.3%. It is expected that PRC sales volume of benzyl alcohol will increase from 111.9 thousand tons in 2024 to 143.4 thousand tons in 2028, with a CAGR of 6.4% over the prediction period. The PRC sales revenue of benzyl alcohol is estimated to reach RMB2,267.7 million in 2028.

Global Sales Volume and Sales Revenue of Benzyl Alcohol (Global), 2018-2028E



Source: Frost & Sullivan Report

Sales Volume and Sales Revenue of Benzyl Alcohol (The PRC), 2018-2028E



Source: Frost & Sullivan Report

In 2023, influenced by factors including the slowdown of global economic growth, reduced demand from downstream inventory replenishment, and market adjustments due to geopolitical factors, crude oil prices dropped from high price level. Decrease in crude oil prices reduced the cost support for downstream products, resulting in the decline in prosperity of markets for benzoic acid, sodium benzoate, and benzyl alcohol, resulting in the decrease in production volume and capacity utilization rate of upstream manufacturers.

For example, the capacity utilization rate of benzoic acid industry in the PRC reached 74.8% in 2022, and the production volume reached 168.2 thousand tons. However, in 2023, with the decrease in market demand and the increase in overall production capacity, the capacity utilization rate of benzoic acid industry in the PRC dropped to 43.7% while the total production volume dropped by 13.0%. Similarly, the capacity utilization rate of sodium benzoate industry in the PRC reached 74.2% in 2022, and the production volume reached 118.0 thousand tons. However, in 2023, the capacity utilization rate of sodium benzoate industry in the PRC dropped to 49.6% while the total production volume dropped by 15.9% in 2023. For the benzyl alcohol industry in the PRC, the capacity utilization rate reached 82.2% in 2022, and the production volume reached 111.5 thousand tons. However, in 2023, the capacity utilization rate of benzyl alcohol industry in the PRC dropped to 71.2% while the total production volume dropped by 11.2% in 2023.

Further, there was structural adjustment in the global and the PRC toluene and toluene derivative products markets which involves a general shift in sales towards leading Chinese manufacturers with the withdrawal of small and medium-sized manufacturers from the industry, and the decrease in the output and production capacity utilization rate of overseas manufacturers. This phenomenon is more explicit in the overseas market where the production volume of benzoic acid, sodium benzoate, and benzyl alcohol industry outside of the PRC in 2023 dropped by 19.9%, 17.9%, and 15.4% as compared to 2022, respectively. These figures represent a much higher decline than observed in the PRC, where the production volume of benzoic acid, sodium benzoate, and benzyl alcohol industry in the PRC in 2023 decreased by 13.0%, 15.9%, and 11.2% as compared to 2022, respectively. This is mainly due to the rising production costs caused by the European energy crisis, which has led to a significant decline in the capacity utilization rates of overseas manufacturers. Consequently, both sales volume and sales revenue of benzoic acid, sodium benzoate, and benzyl alcohol underwent significant contraction in 2023.

The toluene and toluene derivative products market is cyclical in nature, the ups and downs are primarily reflected by the fluctuation in production volume and inventory level of the upstream manufacturers, and raw material price trend in the industry. In 2024, considering the business cycle, downstream industries of benzoic acid, sodium benzoate, and benzyl alcohol are gradually increasing their demand for replenishing stocks. The production volume of the upstream manufacturers and raw material prices are continuously increasing, and the inventory level of the upstream manufacturers is decreasing at the same time. These contributed to the rebound in sales revenue of the upstream manufacturers. In January 2024, product demand of benzoic acid, sodium benzoate, and benzyl alcohol from downstream industries in the PRC have shown a rebound trend and reached 19.2, 15.0, and 11.0 thousand tons, representing an increase of 34.3%, 31.6%, and 12.2% as compared to 14.3, 11.4, and 9.8 thousand tons of product demand in January 2023, respectively. Production volume of the PRC benzoic acid, sodium benzoate, and benzyl alcohol industry in January 2024 reached 17.4, 14.1, 9.7 thousand tons, representing an increase of 39.2%, 28.2%, and 3.2% as compared to 12.5, 11.0, and 9.4 thousand tons of production volume in January 2023, respectively. The inventory level of benzoic acid, sodium benzoate, and benzyl alcohol manufacturers in the PRC in January 2024 was 9.2, 6.1 and 6.0 thousand tons, representing a decrease of 25.2%, 35.1%, and 6.3% as compared to 12.3, 9.4, and 6.4 thousand tons in January 2023, respectively. Therefore, benzoic acid, sodium benzoate, and benzyl alcohol industry in the PRC show a significant recovery trend in 2024. Simultaneously, recovery of the domestic and international economies will drive consumption resurgence. With the further improvement in profit expectations, the capacity utilization rates of major industry players will rise gradually. Besides, the structural adjustment is expected to continue and will benefit the export of chemical products from the PRC. According to the data from General Administration of Customs of the PRC, export volume of benzoic acid, its salts and esters products from the PRC reached approximately 14.1 thousand tons in January 2024, representing a year-on-year increase of 44.0% as compared to approximately 9.8 thousand tons in January 2023. The global toluene and toluene derivative products market is undergoing a structural adjustment that is shifting towards leading Chinese manufacturers. The benzoic acid, sodium benzoate, and benzyl alcohol markets are expected to rebound in both sales volume and sales revenue in 2024 and years forward.

Key Market Drivers and Trends

- **Recovery in market demand from traditional and emerging downstream industries**

The toluene and toluene derivative products have been widely used in the downstream including food and beverage market, industrial market, feed additive market, pesticide intermediate market, and pharmaceutical intermediate market etc. Due to changes in the consumer preferences for packaged food items and drinks and increased per capita income, the demand for preservative is growing. The market size of global food preservative market is expected to reach USD4.1 billion in 2028, and is expected to increase at a CAGR of 4.0% from 2024 to 2028. The growing food preservative market is driving the growth of the toluene and toluene derivative products industry. The PRC market size for the feed additives industry by revenue has increased from RMB94.4 billion in 2018 to RMB122.3 billion in 2023, representing a CAGR of 5.3%. Although the PRC market size for the feed additives industry by revenue dropped from RMB126.8 billion in 2022 to RMB122.3 billion in 2023, the industry is expected to recover in 2024 and reach RMB160.4 billion in 2028 with a CAGR of 6.0% from 2024. Feed acidifier is also an important downstream product of toluene derivatives. The new high-efficiency, non-polluting, non-residual feed additives are becoming increasingly popular along with probiotics, enzymes, fragrances, and other new green feed additives. The market for feed acidifiers with the substitution effect is expected to explode. In addition to the use in traditional industries, the downstream applications for daily chemical products which are well-crafted and enjoy personal care effectiveness are also increasing. Benzoic acid ammonification products mainly comprise benzonitrile and benzoguanamine, which is used as pharmaceutical intermediate. The PRC market size of pesticide intermediates and pharmaceutical intermediates have reached RMB39.3 billion and RMB46.7 billion in 2023 and is expected to reach RMB44.9 billion and RMB70.5 billion in 2028, representing CAGRs of 2.2% and 8.8% from 2024 respectively. Benefiting from the increasing demand from downstream pesticide intermediate and pharmaceutical intermediate markets, the future market demand for benzoic acid ammonification products is expected to grow and recover from the drop in 2023.

- **Favorable and long-term effective regulations and policies**

The PRC government has been taking actions to plan and support the development of toluene and toluene derivative products industry and related downstream industries which utilize toluene derivative products including food additives, food preservative and feed additives. According to the Announcement No. 194 of the Ministry of Agriculture and Rural Affairs of the People's Republic of the PRC issued on July 9, 2019, starting from July 1, 2020, feed manufacturers will stop producing commercial feed containing growth-promoting drug feed additives (except traditional Chinese medicine), which promote the development of functional feed additives. The past few years have witnessed a more stringent and comprehensive regulation of the food and beverage preservative industry in the PRC. In 2019, The Regulation on the Implementation of the Food Safety Law of the People's Republic of the PRC《中華人民共和國食品安全法實施條例》was released by the State Council, which proposed to establish food safety risk evaluation mechanism and assess risks in terms of the biological, chemical and physical impact of food additive and related products. In 2021, in order to provide a scientific basis for developing cosmetic quality and safety risk control measures and standards, and conducting cosmetic sampling and testing, the National Cosmetic Safety Risk Monitoring Plan for the second half of 2021 (《2021年下半年國家化妝品安全風險監測計劃》) has been issued by the National Medical Products Administration. Tightening regulations will further promote the development of relevant industries where the toluene and toluene derivative products are used. In 2022, Notice on Issuing the "14th Five-Year Plan" for Promoting Agricultural and Rural Modernization (《關於印發"十四五"推進農業農村現代化規劃的通知》) specifies, by 2025, the utilization rates of pesticides for major crops will reach over 43.0% from 40.6% in 2020. This measure accelerates the adoption of low-toxic and low-residue pesticides, promoting the usage of pesticide intermediates with low environmental pollution and increasing the demand for toluene and toluene-derived chemicals.

- **Improvement of manufacturing technology**

It is expected that the toluene and toluene derivative products industry will keep improving technologies as major producers are devoted to innovations and advancement of their production method, synthesizing process, and catalyst preparation technology. Continuous innovation and improvement of production techniques, automation, and information technology have direct influence on product quality. For example, Wuhan Youji Industries Co., Ltd. has independently developed an innovative method to produce benzoic acid, referred to as the liquid-phase oxidation of toluene with air, which significantly improves the product quality and enhances the production capacity. Apart from production efficiency, toluene and toluene derivative products industry participants have also adopted measures and technologies to facilitate energy efficiency and environmental protection to comply with relevant regulations and policies to achieve sustainable development.

Entry Barrier

- **Technology and Talent Threshold**

Maintaining industry competitiveness entail high technology capabilities and high threshold of product quality. In order to achieve these element, toluene and toluene derivative products manufacturers need to establish and maintain sufficient technology and expertise, which constitutes an important technical barrier for new marker participants who lack industry experience. Manufacturers need to spend significant resources to achieve breakthroughs in key technologies and mature applications through independent research and development because the manufacturing process involves complex protocol of manufacturing products and by-products under strict product performance requirements. The higher technology threshold and the demand for experienced technicians constitute the technology and talent barrier to the toluene and toluene derivative products industry.

- **Significant Capital Investment**

Significant capital investment is necessary for the toluene and toluene derivative products manufacturers to gain footing in the industry. The toluene and toluene derivative products manufacturing operations require a large amount of capital for the upfront procurement of upstream raw material and expensive equipment to produce such chemical products. Moreover, it is costly to continuously improve the production line and enhance the production techniques to meet the changing demands of downstream markets. Substantial capital is critical for the toluene and toluene-derived chemicals manufacturer to the building and maintaining their leading market position. Therefore, new market participants without sufficient capital are difficult to enter and effectively compete in toluene and toluene derivative products industry.

- **Customer Resources and Channels**

One of the foremost concern for the downstream markets of toluene and toluene derivative products industry including food and beverage industry, daily chemical products industry, medical intermediates industry, is product quality and safety. In addition to product quality, leading toluene and toluene derivative products manufacturers commonly establish their own standards to test the quality of supplier's products during raw material procurement process. Once these manufacturers determine a supplier's products meet their standard requirement, the manufacturers usually maintain long term cooperation with these suppliers and rarely seek to replace them. This industry custom and practice is a great advantage of the established supplier and a significant entry barrier for new market participants.

- **Industry Requirements on Safety**

The quality and safety of toluene and toluene derivative are subject to regulatory oversight. Market participants establish complex quality control processes and internal organizational structure in line with industry characteristics to meet these regulatory standards. Leading manufacturers in the toluene and toluene derivative products industry are required to invest significant human and capital resources, set up quality inspection and control departments, configure professional inspection personnel, and build a sound quality control system to accomplish this feat. With the improvement of quality and safety requirements of downstream products, higher requirements are put forward for upstream toluene and toluene-derived chemicals, and higher substantive access barriers in compliance with regulatory requirement which presents as a significant entry barrier.

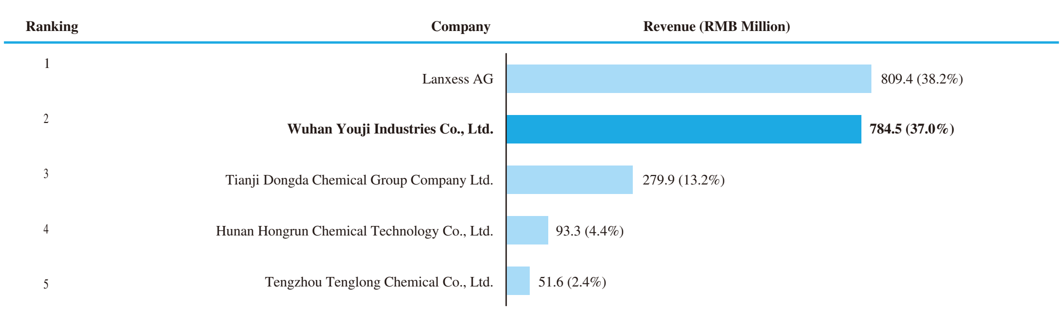
- **Cost Management and Economics of Scale**

The effective cost management and economics of scale will help in generating profit, which is significant for companies' sustainable development. Leading toluene and toluene derivatives providers could leverage their research and development capabilities in product innovation and formula diversification, which enable these enterprises to deliver value added products with excellent quality under proper cost control. Moreover, these enterprises are good at leveraging their long-term industry experience to optimize the production process, and are committed to improving the utilization of by-products and further achieving cost effectiveness, which highlights their long-term development advantages with economics of scale. However, new entrants may lack relevant technical accumulation and industry experience, and also lack the vision in the utilization of by-products and the optimization of production processes, thus forming the cost management and economics of scale barrier.

Competitive Landscape of Global and the PRC Toluene and Toluene Derivative Products Industry

The global sales revenue of benzoic acid in 2023 was approximately RMB2,120.7 million. The global concentration of top five benzoic acid manufacturers increased from 93.9% in 2022 to 95.2% in 2023 in terms of market revenue. In terms of revenue in 2023, our Group ranked second among benzoic acid manufacturers, accounting for 37.0% of the global market revenue.

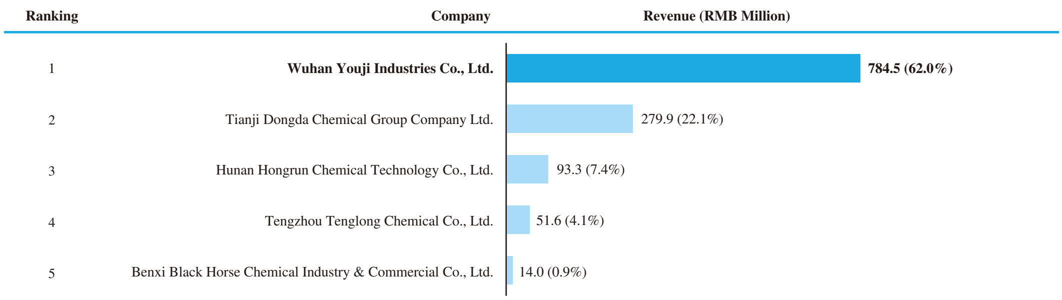
Top Five Player by Revenue in Global Benzoic Acid Market, 2023



Source: Frost & Sullivan Report

The PRC sales revenue of benzoic acid was approximately RMB1,266.0 million in 2023. The PRC benzoic acid market was highly concentrated among the top five benzoic acid manufacturers, whose aggregate market share in terms of revenue was 96.5% in 2023. Our Group ranked first among benzoic acid manufacturers in terms of revenue, accounting for 62.0% of the PRC market revenue.

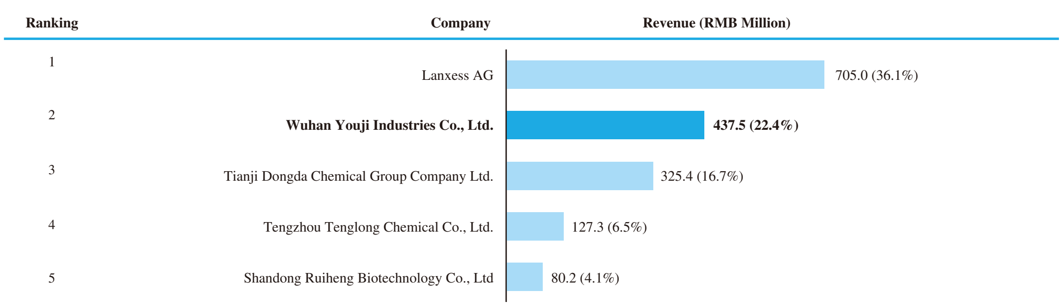
Top Five Player by Revenue in the PRC Benzoic Acid Market, 2023



Source: Frost & Sullivan Report

The global sales revenue of sodium benzoate in 2023 was approximately RMB1,952.3 million. The global concentration of top five sodium benzoate manufacturers increased from 84.4% in 2022 to 85.8% in 2023 in terms of market revenue. In terms of revenue in 2023, our Group ranked second among sodium benzoate manufacturers, accounting for 22.4% of the global market revenue.

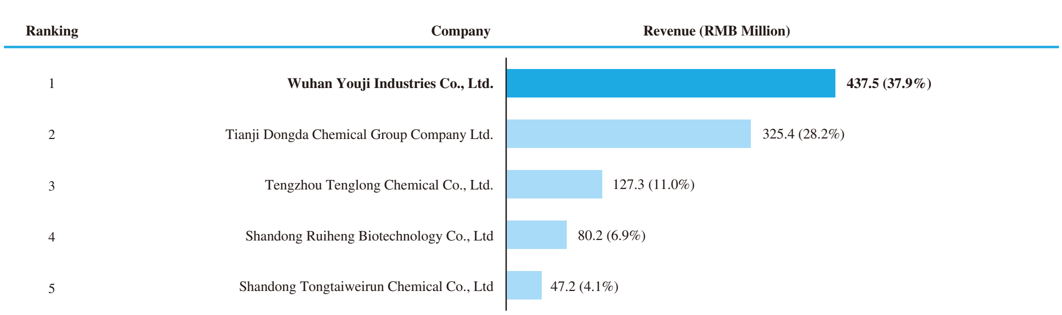
Top Five Player by Revenue in Global Sodium Benzoate Market, 2023



Source: Frost & Sullivan Report

The PRC sales revenue of sodium benzoate was approximately RMB1,154.6 million in 2023. The PRC sodium benzoate market was highly concentrated among the top five sodium benzoate manufacturers, whose aggregate market share in terms of revenue was 88.1% in 2023. Our Group ranked first among sodium benzoate manufacturers in terms of revenue, accounting for 37.9% of the PRC market revenue.

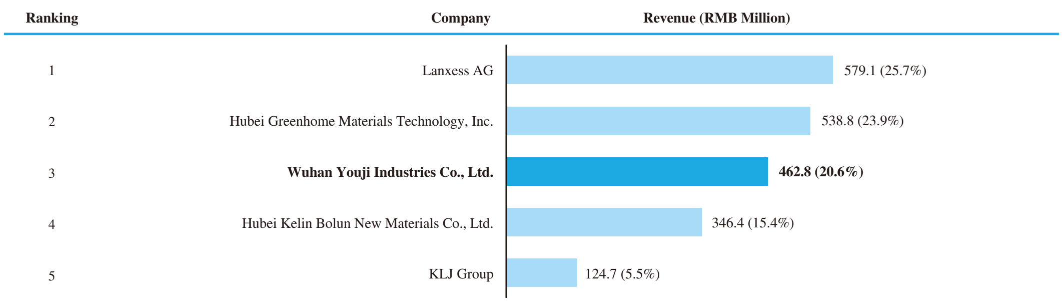
Top Five Player by Revenue in the PRC Sodium Benzoate Market, 2023



Source: Frost & Sullivan Report

The market size of global benzyl alcohol market reached approximately RMB2,251.3 million in 2023. The global concentration of top five benzyl alcohol manufacturers increased from 88.3% in 2022 to 91.1% in 2023 in terms of market revenue. In 2023, our Group ranked third among benzyl alcohol manufacturers in terms of revenue, accounting for 20.6% of the global market revenue. Our Group is the second largest benzyl alcohol manufacturer in the PRC in terms of sales revenue.

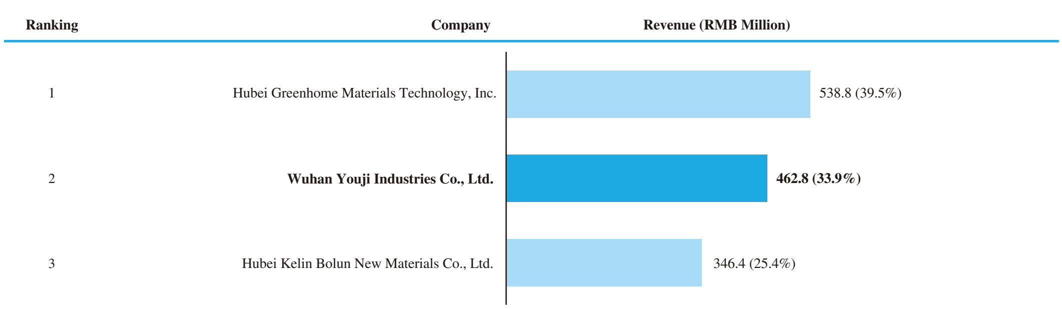
Top Five Player by Revenue in Global Benzyl Alcohol Market, 2023



Source: Frost & Sullivan Report

The PRC sales revenue of benzyl alcohol was approximately RMB1,364.1 million in 2023. The PRC benzyl alcohol market was highly concentrated among the top three benzyl alcohol manufacturers, whose aggregate market share in terms of revenue was 98.8% in 2023. Our Group ranked second among benzyl alcohol manufacturers in terms of revenue, accounting for 33.9% of the PRC market revenue.

Top Three Player by Revenue in the PRC Benzyl Alcohol Market, 2023



Note: Other market players in the China benzyl alcohol market have a minimal market share of less than 2% respectively.

Source: Frost & Sullivan Report

In 2023, major global and the PRC market players in benzoic acid, sodium benzoate and benzyl alcohol markets faced severe challenges on revenue and profitability arising from the slower-than-expected economic recovery caused by COVID-19 and downward trend of raw material prices. Entities in the PRC chemical materials and manufacturing industry has recorded a significant drop in net profit in 2023 as compared to 2022. For global and the PRC market players in benzoic acid, sodium benzoate and benzyl alcohol markets, the rate of drop in net profit from 2022 to 2023 can reach the range from 70% to nearly 100%, or even recorded a net loss. Therefore, it is industry norm to record a significant decrease in profitability for chemical companies in 2023. However, the drop of the profitability in the

PRC chemical materials and manufacturing industry has been narrowing throughout the year from -54.9% in March 2023 to -52.2% in June 2023 and -46.5% in September 2023, and further narrowed to -34.1% in December 2023, according to the statistics issued by National Bureau of Statistics.

Notes:

1. LANXESS Chemical Company Ltd. is a listed Germany company which primarily engages in the production of advanced intermediate, additives and specialty chemicals.

2. Tianji Dongda Chemical Group Company Ltd. is an unlisted Chinese company which primarily engages in the production of benzoic acid, sodium benzoate, benzyl benzoate and polyol benzoate.

3. Hunan Hongrun Chemical Technology Co., Ltd. is an unlisted Chinese enterprise engaged in fine chemical products such as benzoic acid, benzaldehyde, benzoate, etc.

4. Tengzhou Tenglong Chemical Co., Ltd. is an unlisted Chinese enterprise for food-antiseptic products such as benzoic acid, sodium benzoate, and potassium benzoate.

5. Benxi Black Horse Chemical Industry & Commercial Co., Ltd. is an unlisted Chinese company which primarily engages in the production of benzoic acid, sodium benzoate and potassium sorbate.

6. Shandong Ruiheng Biotechnology Co., Ltd. is an unlisted Chinese enterprise that produces sodium benzoate, calcium propionate, benzoic acid, calcium acetate in China.

7. Shandong Tongtaiweirun Chemical Co., Ltd is an unlisted Chinese enterprise specializes in the production of food grade, pharmaceutical grade, feed grade propionate.

8. Hubei Greenhome Materials Technology, Inc. is an unlisted Chinese company which primarily engages in the production of benzyl chloride, benzaldehyde and benzyl alcohol.

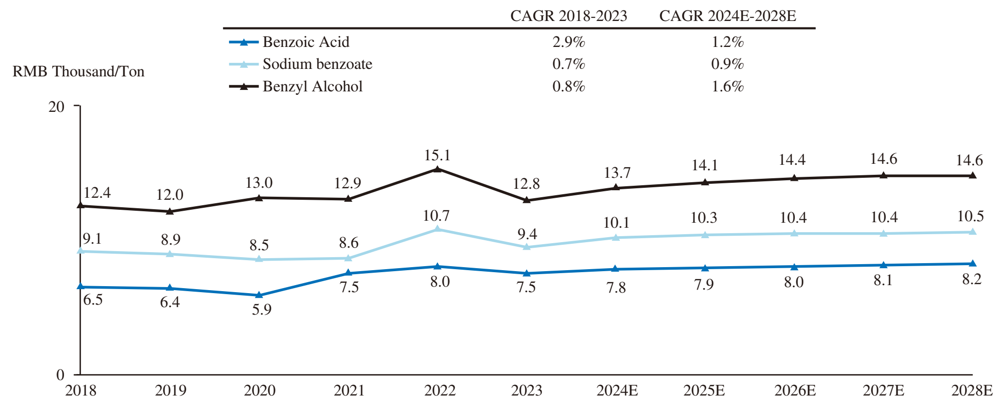
9. Hubei Kelin Bolun New Materials Co., Ltd. is an unlisted Chinese enterprise that engages in the research, production and marketing of benzyl alcohol products.

10. KLJ Group is an unlisted Indian company which primarily engages in the production of plasticizers, benzyl alcohol and polymer compounds.

MAJOR TOLUENE AND TOLUENE DERIVATIVE PRODUCTS AND RAW MATERIAL AND COST ANALYSIS

The average unit price of benzoic acid increased from RMB6.5 thousand per ton in 2018 to RMB7.5 thousand per ton in 2023 at a CAGR of 2.9%, with a higher growth between 2020 and 2021 due to the multiple effects of robust downstream market demand and a shortage of raw material supply due to the COVID-19. The prices of sodium benzoate and benzyl alcohol represented relatively steady trend between 2018 to 2021, which reached RMB8.6 thousand per ton and RMB12.9 thousand per ton in 2021 respectively. The prices of these three products have seen dramatic growth in 2022, which was mainly because of the outstanding growth of toluene and brent crude oil. The average unit price of benzoic acid, sodium benzoate, and benzyl alcohol experienced a drop in 2023 due to the decline of raw material prices, drop in downstream product demand and decline in capacity utilization rate with increasing aggregated production capacity in the market. In the future, recovery of the domestic and international economies will drive consumption resurgence of benzoic acid, sodium benzoate, and benzyl alcohol, thus increasing the capacity utilization rate with no newly constructed production capacity that is put into operation in 2024 and balancing the supply and demand. Further, the recovery of downstream product demand will increase the raw material demand, resulting in the rising raw material prices in the long term. Therefore, the average unit price is expected to maintain a steady increasing trend from 2024 based on the recovery of downstream product demand and rising raw material prices, reaching RMB8.2 thousand per ton, RMB10.5 thousand per ton, and RMB14.6 thousand per ton respectively in 2028 as detailed in the graph below.

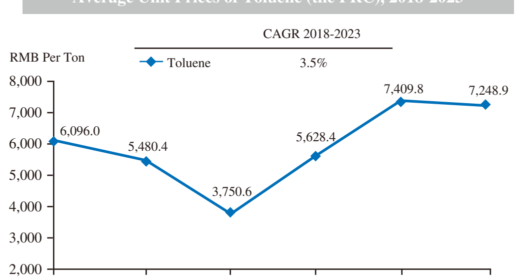
Average Unit Price of Benzoic Acid, Sodium Benzoate and Benzyl Alcohol, 2018-2028E



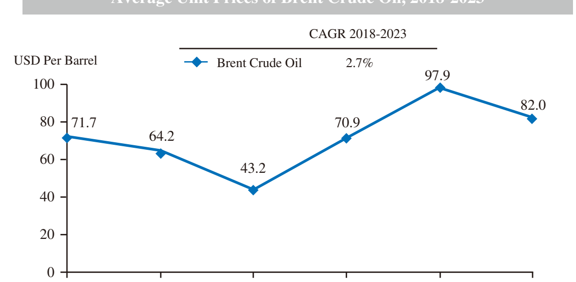
Source: Frost & Sullivan Report

Brent crude oil is a major trading product and serves as a benchmark for purchases on global financial markets. The price of brent crude oil is normally affected by numerous factors including the balance between supply and demand, geopolitics, the intervention of organizations like OPEC and economic policies. In 2020, responses to the COVID-19 pandemic led to steep declines in global petroleum demand and volatile crude oil markets and brent crude oil fell to USD43.2/barrel. The demand of crude oil continues to recover, and the price of brent crude oil has reached USD70.9/barrel in 2021 and subsequently USD97.9/barrel in 2022. In 2023, the average unit price of brent crude oil dropped to USD82.0/barrel. Slowdown of global economic recovery, rising oil output from non-OPEC countries, and global interest rate hike have led to downward fluctuations in oil price in 2023. Geopolitical concerns and economic sanctions restrict the global trade and increase the costs of production, business operations, and financing, resulting in the slowdown of global economic recovery. Also, due to significant production volume increases in non-OPEC countries such as the United States, the overall global oil industry supply surplus has been exacerbated, lowering the oil price. Further, major global economies are implementing monetary policies of raising interest rates to curb inflation, leading to a deceleration in the growth of demand for oil and drop in oil price.

Average Unit Prices of Toluene (the PRC), 2018-2023



Average Unit Prices of Brent Crude Oil, 2018-2023



Source: Frost & Sullivan Report

In general, the price of international crude oil is positively correlated with the average price of toluene as oil is one of indispensable raw materials. The price of toluene decreased from RMB6,096.0 per ton in 2018 to RMB3,750.6 per ton in 2020. In 2020, due to the slump in oil consumption, stock accumulation of refined oil products and shrinking demands of oil blending, the average price of toluene decreased by 31.6%. The market price of toluene was on a fluctuated but overall upwards trend in 2021. As the oil price continues to increase, the price of toluene demonstrates similar trend and has reached RMB7,409.8 per ton in 2022. In 2023, drop in the average prices of brent crude oil led to the decrease in the average sales price of toluene to RMB7,248.9 per ton. Due to the drop in oil prices, toluene, as the product of the petroleum refining process, lacked sufficient cost support and demand from downstream markets, leading to a slight drop in its average price in 2023, resulting in the decrease of the average sales price of benzoic acid, sodium benzoate and benzyl alcohol in the corresponding period.

LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Pursuant to the Company Law of the People's Republic of China (《中華人民共和國公司法》) (hereinafter referred to as the "**Company Law**") promulgated by the Standing Committee of the National People's Congress (hereinafter referred to as the "**SCNPC**") on December 29, 1993 and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013, October 26, 2018, and December 29, 2023, respectively, which will become effective on July 1, 2024, all companies established in China are subject to the provisions of the Company Law, which stipulate provisions on the establishment, corporate structure and management of companies, and also apply to foreign-invested companies. To the extent laws on foreign investment have other stipulations, these stipulations shall prevail.

Pursuant to the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (hereinafter referred to as the "**Foreign Investment Law**") promulgated by the National People's Congress on March 15, 2019 and became effective on January 1, 2020, and the Implementing Regulations of the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法實施條例》) promulgated by the State Council of the People's Republic of China on December 26, 2019 and came into force on January 1, 2020, China will further implement the open-up policy, proactively promote foreign investment, protect the legitimate rights and interests of foreign investors and regulate the management of foreign investment. The various policies to support the development of enterprises shall equally apply to foreign-invested enterprises in accordance with the laws. Foreign investors' capital contributions, profits, capital gains, gains from asset disposal, royalties of intellectual property rights, legally obtained compensation or indemnification, gains from liquidation can be freely remitted in or out of China in RMB or foreign currency in accordance with the laws. The State implements a management system comprising pre-access national treatment along with a negative list with respect to foreign investment, and gives national treatment to foreign investment beyond the negative list. Foreign investors shall not invest in any field forbidden by the negative list for foreign investment; for any field restricted by the negative list, foreign investors shall conform to the investment conditions stipulated under the negative list such as requirements on equity and senior management; any field that does not fall within the negative list shall be administered under the principle of equal treatment to domestic and foreign investment.

Pursuant to the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) promulgated by the National Development and Reform Commission (hereinafter referred to as the "**NDRC**") and the Ministry of Commerce of the People's Republic of China (hereinafter referred to as the "**MOC**") on December 27, 2021 and became effective on January 1, 2022, and the "Catalog of Industries for Encouraged Foreign Investment (2022 version)" (《鼓勵外商投資產業目錄(2022年版)》) promulgated by the MOC and the NDRC on October 26, 2022 and became effective on January 1, 2023, the Company's core business, namely the production and sales of food additives, feed additives, drug additives, coatings, etc., falls within the permitted category of foreign investment.

Pursuant to the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) promulgated by the MOC and the SAMR on December 30, 2019 and came into effect on January 1, 2020, where foreign investors carry out investment activities directly or indirectly within the PRC, foreign investors or foreign-invested enterprises shall report investment information to competent commerce departments.

LAWS AND REGULATIONS RELATING TO SAFE PRODUCTION

Pursuant to the Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) (hereinafter referred to as the "**Work Safety Law**") promulgated by the SCNPC on June 29, 2002 and amended on August 27, 2009, August 31, 2014 and June 10, 2021 and became effective on September 1, 2021, production and business operation entities in China shall abide by the Work Safety Law and other laws and regulations concerning work safety, and redouble their efforts to ensure work safety by setting up and perfecting the responsibility system for work safety of all employees and rules and regulations on work safety, increasing the input and guarantee of funds, materials, technologies, and personnel in terms of work safety, improving the conditions for work safety, strengthening the development of standards and adoption of information technologies for work safety, building a dual prevention mechanism of level-to-level safety risk management and control and hidden danger identification and management, and perfecting the risk prevention and resolution mechanism, to raise the work safety level and ensure work safety. In addition, the production, business operation, transportation, storage, and use of any hazardous substances or the disposal of or abandonment of hazardous substances shall be subject to the examination and approval as well as the supervision and administration of the relevant administrative departments according to the provisions of the relevant laws and regulations, national standards, or industrial standards. Pursuant to the Work Safety Law, the major person-in-charge of a production or operation entity shall be fully responsible for the work safety efforts of the entity. The production and operation entities must educate and urge their employees to strictly observe the regulations and rules for safe production and the rules for safe operations; and must truthfully inform the employees of the dangerous elements that exist at the site of operations and work positions, of the prevention measures, and of corresponding emergency measures for dealing with accidents; provide articles of labor protection that meet the national standards or industrial standards for their employees, as well as supervise and educate them in the proper use of these articles pursuant to the prescribed rules.

Pursuant to the Work Safety Law, and the Regulations on Work Safety Licenses (《安全生產許可證條例》) issued by the State Council on January 13, 2004 and amended on July 18, 2013 and July 29, 2014, the State applies a work safety licensing system to enterprises engaged in mining, construction and production, hazardous chemicals, fireworks and firecrackers, and civil explosives. Without work safety licenses, an enterprise shall not engage in production activities.

Pursuant to the Work Safety Law, and the Measures for the Supervision and Administration of "Three Simultaneities" for Safety Facilities of Construction Projects (《建設項目安全設施「三同時」監督管理辦法》) promulgated by the State Administration of Work Safety (now has been adjusted to the Ministry of Emergency Management, hereinafter referred to as the "**Former SAWS**"), production and operation entities are responsible for the construction of the safety facilities of construction projects. The safety facilities of a construction project must be designed, constructed and put into production and use simultaneously with the main part of the project. Investment in safety facilities shall be brought into the budgetary estimate of the whole construction project.

LAWS AND REGULATIONS RELATING TO HAZARDOUS CHEMICALS

Licensing and Filing Requirements Related to Hazardous Chemicals

Pursuant to the Work Safety Law, and the Administrative Regulations on the Safety of Hazardous Chemicals (《危險化學品安全管理條例》, hereinafter referred to as the "**Administrative Regulations on the Safety of Hazardous Chemicals**") promulgated by the State Council on January 26, 2002, last amended on December 7, 2013 and became effective on the same date, and the Measures for the Implementation of Work Safety Licenses of Hazardous Chemical Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》) promulgated by the Former SAWS on August 5, 2011, amended and became effective on May 27, 2015 and March 6, 2017 respectively, the term "hazardous chemicals" refers to the highly toxic chemicals and other chemicals which are toxic, corrosive, explosive, flammable or combustion-supporting that can harm people, facilities or the environment. Enterprises that produce hazardous chemicals shall obtain a safety license before production.

Pursuant to the Administrative Regulations on the Safety of Hazardous Chemicals, and the Measures for the Administration of the Permits for Trading in Hazardous Chemicals (《危險化學品經營許可證管理辦法》) promulgated by the Former SAWS on July 17, 2012, amended on May 27, 2015 and became effective on July 1, 2015, the State applies a licensing system to the business operation of hazardous chemicals (including storage management, hereinafter the same). Without a business permit, no entity or individual may engage in the operation of hazardous chemicals. Pursuant to the Catalogue of Hazardous Chemicals (2015 version) (《危險化學品目錄(2015版)》) promulgated by the Former SAWS and the Ministry of Industry and Information Technology of the People's Republic of China, the Ministry of Public Security of the People's Republic of China, the Ministry of Environmental Protection of the People's Republic of China (adjusted to the Ministry of Ecology and Environment of the People's Republic of China, hereinafter referred to as the "**Former Ministry of Environment**"), the Ministry of Transport of the People's Republic of China, the Ministry of Agriculture of the People's Republic of China (adjusted to the Ministry of Agriculture and Rural Affairs of the People's Republic of China, hereinafter referred to as the "**Former Ministry of Agriculture**"), the former General Administration of Quality Supervision, Inspection and Quarantine, National Railway Administration, National Health and Family Planning Commission (transformed to National Health Commission of the People's Republic of China) and Civil Aviation Administration of China on February 27, 2015 and became effective on May 1, 2015, toluene and other products operated by the Company are listed in the catalogue and thus the Company shall comply with laws and regulations on hazardous chemicals.

Pursuant to the Regulation on the Administration of Precursor Chemicals (《易製毒化學品管理條例》) promulgated by the State Council on August 26, 2005, amended and became effective on July 29, 2014, February 6, 2016 and September 18, 2018, the Measures for the Licensing for Production and Operation of Non-pharmaceutical Precursor Chemicals (《非藥品類易製毒化學品生產、經營許可辦法》) promulgated by the Former SAWS on April 5, 2006 and became effective on April 15, 2006, the precursor chemicals are classified into three categories. Category I refers to the major materials that may be used to produce drugs. Categories II and III refer to the chemical auxiliary substances that may be used to produce drugs. The specific classification and varieties of precursor chemicals are shown in the attachment of the present Regulation. The State applies a licensing system to the production and operation of non-pharmaceutical precursor chemicals. The production and operation of non-pharmaceutical precursor chemicals of Category I shall be subject to license-based administration, while the production and operation of precursor chemicals of Category II and Category III shall be subject to record certificate-based administration. The valid term of a certificate on record of production and operation of a non-pharmaceutical precursor chemical of Category II or Category III shall be 3 years. If the producer or operator needs to continue the production or operation after expiry of the valid term, it shall renew the record certificate within 3 months prior to the expiry of the valid term of the record certificate.

Regulations Related to Production and Storage of Hazardous Chemicals

Pursuant to the Administrative Regulations on the Safety of Hazardous Chemicals, work safety departments shall be responsible for checking the safety conditions of building, renovating and enlarging construction projects for producing and storing hazardous chemicals. An enterprise producing or storing hazardous chemicals shall hire an institution with the qualifications required by the State to make a safety evaluation on its work safety conditions once every three years and make a safety evaluation report after that. The safety evaluation report shall cover the problems existing in the current work safety conditions and a schedule for correction, as well as submit the safety evaluation report and the implementation of the rectification schedule to the work safety department of the local people's government at the county level for record.

Pursuant to the Measures for the Administration of Registration of Hazardous Chemicals (《危險化學品登記管理辦法》) promulgated by the Former SAWS on July 1, 2012 and became effective on August 1, 2012, enterprises engaged in the production and import of any chemicals listed in the Catalogue of Hazardous Chemicals must register with the competent work safety supervision department prior to the inspection and acceptance of completed projects or the first importation activity. The hazardous chemicals registration certificate shall be valid for three years and the enterprise may file a certificate renewal application three months before the expiry of the validity term of the registration certificate.

Pursuant to the Interim Provisions on the Supervision and Management of Major Hazard Sources of Dangerous Chemicals (《危險化學品重大危險源監督管理暫行規定》) promulgated by the Former SAWS on August 5, 2011, amended on May 27, 2015 and became effective on July 1, 2015, enterprises that undertake production, storage, usage and operation for hazardous chemicals shall identify, assess and evaluate their major hazard sources, establish and perfect the safety monitoring and controlling systems, formulate emergency plan of major hazard sources, make timely registration and records of the major hazard sources identified and determined item by item, and file with the safety production supervision and administration departments of the people's governments at county level where they locate.

LAWS AND REGULATIONS RELATING TO FOOD, FEED AND PHARMACEUTICAL INDUSTRY

Production and Operation of Food Additives

Pursuant to the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法》) (hereinafter referred to as the "**Food Safety Law**") promulgated by the SCNPC on February 28, 2009, amended on April 24, 2015, December 29, 2018 and April 29, 2021, the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法實施條例》) (hereinafter referred to as the "**Regulation on the Implementation of the Food Safety Law**") promulgated by the State Council on July 20, 2009, as amended on February 6, 2016 and March 26, 2019 and became effective on December 1, 2019, and the Management Measures for Food Additive Productions (《食品添加劑生產管理辦法》) promulgated by the former Ministry of Light Industry on December 31, 1992 and becoming effective on the same date, the State adopts a licensing system for the production of food additives. Those engaging in the production of food additives shall have the premises, production equipment or facilities, specialized technicians, and management rules suitable for the varieties of food additives produced, and shall obtain a permit for the production of food additives. The production of food additives must be carried out in conformity with the laws, regulations, and national food safety standards. A producer of food additives shall inspect the food additives produced by it in accordance with the food safety standards, and food additives may be shipped out from the factory or be sold only after passing the inspection. A food additive producer shall establish a record system for checking ex-factory food additives, check the inspection certificates and safety compliance of ex-factory products, honestly record the names, specifications, quantities, dates or lot numbers of production, best before date, inspection certificate numbers, and dates of sale of food additives and the names, addresses, and contact methods of purchasers, and keep the relevant vouchers.

Production and Operation of Feed Additives

The Regulation on the Administration of Feeds and Feed Additives (《飼料和飼料添加劑管理條例》) promulgated by the State Council on May 29, 1999 and subsequently amended and became effective on November 29, 2001, December 7, 2013, February 6, 2016 and March 1, 2017 sets out the management and regulatory regulations on the research and development, production, operation and use of feeds, which means industrially processed or manufactured products to be fed to animals, including single feeds, additive premix feeds, concentrated feeds, formula feeds, and concentrate supplements, and feed additives, which means the small quantities or traces of substances added in the processing, manufacturing and use of feeds, including nutritional feed additives and general feed additives. Enterprises engaged in the production of feed or feed additives must obtain a feed or feed additive production license before production. The PRC government encourages the research and development of new feeds and new feed additives. Before a new feed or new feed additive is put into production, the developer or production enterprise shall file an application for examination and approval with the agriculture administrative department under the State Council.

The Measures for the Administration of Production Licenses for Feeds and Feed Additives (《飼料和飼料添加劑生產許可管理辦法》) promulgated by the Former Ministry of Agriculture on May 2, 2012, amended and became effective on December 31, 2013, May 30, 2016, November 30, 2017 and January 7, 2022 stipulates the conditions and requirements for enterprises engaged in the production of feed, feed additives or additive premixed feed to obtain relevant production licenses. The enterprise must obtain relevant feed additive production license or additive premixed feed production license before producing feed and feed additives. After obtaining a production license, the production enterprise of feed additives or additive premix feeds shall apply to the provincial feed management department for the issuance of a product approval document number. The provisions for the production of feed and feed additives include the availability of relevant facilities and equipment, technical and quality supervision personnel and compliance with relevant safety and health standards.

Manufacturing and Operation of Drugs

Pursuant to the Medicinal Product Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》) (hereinafter referred to as the "**Medicinal Product Administration Law**") promulgated by the SCNPC on September 20, 1984, last amended on August 26, 2019 and became effective on December 1, 2019 and the "Regulations for the Implementation of the Drug Administration Law of the People's Republic of China" (《中華人民共和國藥品管理法實施條例》) promulgated by the State Council on August 4, 2002, amended and became effective on February 6, 2016 and March 2, 2019, the Medicinal Product Administration Law applies to the research, development, manufacturing, distribution, use, supervision, and administration of medicinal products in the territory of the People's Republic of China. To be engaged in the manufacture of medicinal products, the enterprise shall be subject to the approval of the medicinal product regulatory department of the people's government of the province, autonomous region, or municipality directly under the Central Government where it is located, and obtain a manufacturing permit for medicinal products. No medicinal products may be manufactured without a manufacturing permit for medicinal products. An enterprise shall manufacture medical products that meet the national medicinal product standards. Where any medicinal product quality standards approved by the medicinal product regulatory department of the State Council are higher than the national medicinal product standards, the approved medicinal product quality standards shall prevail; and in absence of national medicinal product standards, the approved medicinal product quality standards shall be complied with.

Pursuant to the Measures for the Supervision and Administration of Drug Production (《藥品生產監督管理辦法》) promulgated by the State Administration for Market Regulation on January 22, 2020 and became effective on July 1, 2020, active drug ingredients manufacturers shall organize production in accordance with the approved production processes, strictly comply with the management standards for the drug production quality, and ensure that the production process satisfies the statutory requirements. Manufacturers of auxiliary materials, and packaging materials and containers in direct contact with drugs are subject to related inspection. Other entities and individuals carrying out drugs-related manufacturing activities shall assume corresponding liability in accordance with the laws. A drug production license is required in order to produce preparations, active drug ingredients, and traditional Chinese medicine decoction pieces. The drug production license is valid for five years.

LAWS AND REGULATIONS RELATING TO COMMODITY IMPORT AND EXPORT

Pursuant to the Foreign Trade Law of the People's Republic of China (《中華人民共和國對外貿易法》) promulgated by the SCNPC on May 12, 1994 and subsequently amended and became effective on April 6, 2004, November 7, 2016 and December 30, 2022 and the "Notice by the Department of Enterprise Management and Audit-Based Control of the General Administration of Customs of Matters Concerning the Recordation of the Consignees and Consignors of Imported and Exported Goods" (《海關總署企業管理和稽查司關於進出口貨物收發貨人備案有關事宜的通知》) promulgated by the General Administration of Customs of the People's Republic of China on January 3, 2023 and became effective on the same date, a consignee or consignor of imported or exported goods who applies for recordation shall be qualified as a market entity and is not required to be filed as a foreign trade business operator.

Pursuant to the Customs Law of the People's Republic of China (《中華人民共和國海關法》) promulgated by the SCNPC on January 22, 1987 and subsequently amended on July 8, 2000, June 29, 2013, December 28, 2013, November 7, 2016, November 4, 2017 and April 29, 2021, the consignee of imported goods, the consignor of exported goods and the owner of inward and outward articles shall be the obligatory customs duty payer. Unless otherwise stipulated, all imported and exported goods must be declared and duties on them shall be paid by the consignees or the consignors or by the representatives entrusted. The consignee or the consignor of imported or exported goods and the customs declaration enterprise shall undergo customs declaration formalities at the Customs in accordance with the laws. Pursuant to the Provisions of the People's Republic of China on the Recordation of Customs Declaration Entities (《中華人民共和國海關報關單位備案管理規定》) promulgated by the General Administration of Customs on November 19, 2021 and became effective on January 1, 2022, customs declaration entities refer to consignees or consignors of imported or exported goods or customs declaration enterprises that have filed for record with the Customs in accordance with the Provisions. Consignors or consignees of imported or exported goods or customs declaration enterprises that apply for record-filing shall obtain market entity qualifications.

Pursuant to the Regulation of the People's Republic of China on the Administration of the Import and Export of Goods (《中華人民共和國貨物進出口管理條例》) (hereinafter referred to as the "**Regulation on the Administration of the Import and Export of Goods**") promulgated by the State Council on December 10, 2001 and became effective on January 1, 2002, enterprises engaged in the import of goods to the customs territory of the People's Republic of China or export of goods from the customs territory of the People's Republic of China, shall comply with the Regulation on the Administration of the Import and Export of Goods. For goods that are prohibited from importation or exportation, they can not be imported or exported; for goods that are subject to import or export restrictions, a license or quota management system shall be implemented; for goods that are freely imported or exported, there is no restriction. The import and export business operator shall present the automatic import and export licenses, import and export licenses or the quotas certificate issued by the administrative departments of import quotas to the customs offices for handling the formalities of customs declaration and examination.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

Pursuant to the Regulation of the People's Republic of China on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) (hereinafter referred to as the "**Regulation on Foreign Exchange Administration**") promulgated by the State Council on January 29, 1996, last amended on August 5, 2008 and became affective on the same date, the foreign exchange income and expenditure and foreign exchange business operations of Chinese institutions and individuals, and the foreign exchange income and expenditure and foreign exchange business operations conducted within the territory of the People's Republic of China by overseas institutions and individuals must comply with the Regulation on Foreign Exchange Administration. An overseas institution or individual that makes direct investments in the territory of the People's Republic of China shall go through the registration formalities at a foreign exchange administrative organ upon the approval of the competent department. A domestic institution or individual that makes direct investment or issues or trades negotiable securities or derivative products overseas shall go through the registration formalities at the foreign exchange administrative department of the State Council. If a prior approval or filing of a competent department was required by relevant state provisions, the approval or filing process must be completed before handling the foreign exchange registration formalities.

Pursuant to the Notice of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration of the Overseas Investment and Financing and the Round-tripping Investment Made by Domestic Residents through Special-Purpose Companies (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (hereinafter referred to as the "**SAFE Circular 37**") promulgated by the SAFE on July 4, 2014 and became effective on the same day, before contributing capital to a special-purpose vehicle with its legal assets or interests within or outside China, a domestic resident (including domestic institution or domestic resident individual) shall apply to the foreign exchange authority for undergoing the foreign exchange registration procedure for foreign investment. Failure to comply with the registration procedures contained in SAFE Circular 37 may restrict the subsequent foreign exchange activities (including repatriation of dividends and profits) of relevant domestic residents.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (hereinafter referred to as the "**SAFE Circular 19**") promulgated by the SAFE on March 30, 2015 and became effective on June 1, 2015, foreign-invested enterprises may choose to convert any amount of foreign exchange in their capital account into RMB based on their actual business needs. The SAFE further issued Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Policies for the Administration of Foreign Exchange Settlement under the Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (hereinafter referred to as the "**SAFE Circular 16**") on June 9, 2016, which, among other things, amended certain provisions of SAFE Circular 19. Pursuant to SAFE Circular 19 and SAFE Circular 16, the settlement of foreign exchange receipts under the capital account (including the foreign exchange capital, foreign debt financing and funds repatriated from overseas listing) that are subject to discretionary settlement as already specified by relevant policies may be handled at banks based on the domestic institutions' actual requirements for business operation. Domestic institutions may, when conducting the discretionary settlement of foreign exchange receipts under the capital account, use their foreign exchange receipts under the system of foreign exchange settlement upon payment.

Domestic institutions' foreign exchange receipts under the capital account shall be used within the business scope under the genuineness and self-use principles. Domestic institutions' foreign exchange receipts under the capital account and the RMB funds obtained from the settlement thereof may be used for the expenditure under current accounts within their respective business scope and the expenditure under the capital account permitted by laws and regulations, which may not be for the following purposes: be used for the expenditures beyond the business scope of the enterprises or prohibited by the laws and regulations of the state; be used for securities investment or any investment or wealth management other than banks' principal guaranteed products, unless otherwise provided for by any law or regulation; be used to grant loans to non-affiliated enterprises, except those circumstances expressly permitted in the business scope; be used to build or purchase the real estate not for self-use (except real estate enterprises).

Pursuant to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), hereinafter referred to as the "**SAFE Circular 13**") promulgated by the SAFE on February 13, 2015 and came into effect on June 1, 2015, the administrative examination and approval procedures relating to the foreign exchange registration approval under domestic direct investment and the foreign exchange registration approval under overseas direct investment (hereinafter referred to as "**direct investment related foreign exchange registration**") were abolished and direct investment-related foreign exchange registration is directly reviewed and handled by banks. Further, the procedures for certain direct investment-related foreign exchange businesses are simplified under the SAFE Circular 13: (1) the registration procedure for confirmation of the capital contribution of foreign investors under domestic direct investment is simplified. The registration for confirmation of the non-cash capital contribution of foreign investors under domestic direct investment and the registration for confirmation of the capital contribution made by foreign investors for acquisition of the equity interests of the Chinese side were abolished; (2) the foreign exchange filing of overseas reinvestment was abolished; (3) the annual inspection on foreign exchange of direct investment was abolished and replaced by the registration of inventory interests.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Laws and Regulations Relating to Construction Project Environmental Protection

Pursuant to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) promulgated by the SCNPC on December 26, 1989, last amended on April 24, 2014 and became effective on January 1, 2015, all entities and individuals have the obligation to protect the environment. Enterprises, public institutions and other producers and operators shall prevent and reduce environmental pollution and ecological damage, and assume the liability for the damage caused in accordance with the laws. For the construction of environment-affected projects, the environmental impact assessment shall be conducted. The pollution prevention and control facilities in construction projects shall be designed, built and put into production and use along with the principal part of the project at the same time. The pollution prevention and control facilities shall meet the requirements specified in the approved documents regarding the environmental impact assessment and shall not be dismantled or left idle without authorization. The consequences of violations of the Environmental Protection Law include fines and restricted or suspended production. If a criminal offense is committed, the offender will be subject to criminal liability.

Pursuant to the Law of the People's Republic of China on Environment Impact Assessment (《中華人民共和國環境影響評價法》) promulgated by the SCNPC on October 28, 2002 and most recently amended on December 29, 2018, an environmental impact assessment shall be conducted for projects that have an impact on the environment in China. For construction projects with potentially serious environmental impacts, an environment impact report shall be prepared to provide a comprehensive assessment of their environmental impacts. For construction projects with potentially mild environmental impacts, an environmental impact statement shall be prepared to provide an analysis or specialized assessment of their environmental impacts. For construction projects with very small environmental impacts, no environmental impact assessment is required. However, an environmental impact registration form shall be submitted.

Pursuant to the Regulation on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) promulgated by the State Council on November 29, 1998, amended on July 16, 2017 and became effective on October 1, 2017, for a construction project for which an environmental impact report or environmental impact statement shall be prepared in accordance with the laws, the construction unit shall submit, before the commencement of the construction works, the environmental impact report or environmental impact statement to the competent administrative department of environmental protection with the authority of examination and approval for approval. If the environmental impact evaluation document of the construction project is not examined by the examination and approval department in accordance with the laws or is not approved after examination, the construction unit may not commence the construction works. A construction project for which an environmental impact report or environmental impact statement is prepared may commence operation or be put into use only after its supporting environmental protection facilities pass the inspection and acceptance; and the construction project may not commence operation or be put into for use if no inspection and acceptance is performed for the supporting environmental protection facilities or they fail to pass the inspection and acceptance.

Laws and Regulations Relating to Prevention and Control of Pollution

The Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) promulgated by the SCNPC on September 5, 1987, became effective on June 1, 1988, amended and became effective on August 29, 1995, April 29, 2000, August 29, 2015 and October 26, 2018, the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) promulgated by the SCNPC on May 11, 1984, amended on May 15, 1996, February 28, 2008 and June 27, 2017 and became effective on January 1, 2018, the Law of the People's Republic of China on Noise Pollution Prevention and Control (《中華人民共和國噪聲污染防治法》) promulgated by the SCNPC on December 24, 2021, became effective on June 5, 2022, and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) promulgated by the SCNPC on October 30, 1995, last amended on April 29, 2020 and became affective on September 1, 2020 set out the requirements for the prevention and control of atmospheric pollution, water pollution, noise pollution and solid waste respectively. The enterprises which discharge sewage, solid waste, noise or waste gas shall obtain corresponding pollutant discharge permit documents in accordance with the aforesaid laws and regulations.

Pursuant to the Administrative Measures for Pollutant Discharge Permitting (for Trial Implementation) (《排污許可管理辦法(試行)》) promulgated by the Former Ministry of Environment and became effective on January 10, 2018, amended and became effective on August 22, 2019, enterprises and other production operators included in the catalog of classified management of pollutant discharge licenses for stationary pollution sources shall apply for and obtain a pollutant discharge license within the prescribed time limit. Pollutant discharging entities not included in the catalog of classified management of pollutant discharge licenses for stationary pollution sources are temporarily not required for application for pollutant discharge licenses. Where any entity is required to obtain a pollutant discharge license but fails to do so, it shall not discharge pollutants.

Pursuant to the Catalog of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources (2019 Version) (《固定污染源排污許可分類管理名錄(2019年版)》) issued by the Ministry of Ecology and Environment of the People's Republic of China (hereinafter referred to as the "**MEE**") and became effective on December 20, 2019, the State implements the primary management, simplified management and registration management of pollutant discharge permits based on the quantity of pollutants generated and discharged, their impacts on the environment and other factors. A pollutant discharge unit under registration management does not need to apply for a pollutant discharge license.

Pursuant to the Regulations on the Administration of Permitting of Pollutant Discharges (《排污許可管理條例》) promulgated by the State Council on January 24, 2021 and became effective on March 1, 2021, based on the quantity of pollutants generated and discharged, their impacts on the environment and other factors, categorical administration of pollutant discharge permit system is implemented to regulate pollutant-discharging entities: (1) key administration of pollutant discharge permits shall be implemented for pollutant discharging entities which generate and discharge relatively large quantities of pollutants or have a relatively serious impact on the environment; (2) administration of pollutant discharge permits shall be simplified for pollutant-discharging entities which generate and discharge relatively small quantities of pollutants and have a relatively small impact on the environment. Pollutant discharging entities shall apply for pollutant discharging permits with the competent departments of ecology and environment under the local people's governments at or above the level of city with subordinate districts at the places where their production and operation premises are located. If a pollutant discharging entity has two or more production and operation premises which discharge pollutants, it shall apply for pollutant discharge permits separately for its production and operation premises.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Patent

Pursuant to the Patent Law of the People's Republic of China (《中華人民共和國專利法》) (hereinafter referred to as the "**Patent Law**") promulgated by the SCNPC on March 12, 1984, last amended on October 17, 2020 and became effective on June 1, 2021, enterprises may apply for intellectual property rights of inventions, utility models or designs. A patentable invention or utility model must meet three conditions, i.e. novelty, inventiveness and practical applicability. The Patent Office of China National Intellectual Property Administration is responsible for receiving, examining and approving patent applications. The duration of the patent right for an invention is 20 years, for a utility model is 10 years, and for a design is 15 years, all of which commencing from the date of application. Except for certain specific circumstances provided by the Patent Law, no entity or individual may, without the permission of the patentee, exploit the patent.

Trademark

Pursuant to the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) promulgated by the SCNPC on August 23, 1982, last amended on April 23, 2019 and became effective on November 1, 2019, "registered trademark" refers to trademarks that have been approved by and registered with the Trademark Office of China National Intellectual Property Administration, including commodity marks, service marks, collective marks and certification marks. The exclusive right to use a registered trademark shall be limited to trademarks that have been approved for registration and to commodity on which the use of the trademark has been approved. The period of validity of a registered trademark is ten years, starting from the date the registration is approved. Any of the following conducts shall constitute an infringement of the exclusive right to use a registered trademark, including (but not limited to): without obtaining a license from the trademark registrant, using a trademark that is similar to a registered trademark on the same commodity or using a trademark that is identical with or similar to a registered trademark on similar commodity or selling commodity that infringe the exclusive right to use the registered trademark.

Copyright

Pursuant to the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) (hereinafter referred to as the "**Copyright Law**") promulgated by the SCNPC on September 7, 1990, last amended on November 11, 2020 and became effective on June 1, 2021 and the Implementing Regulations of the Copyright Law of the People's Republic of China (《中華人民共和國著作權法實施條例》) promulgated by the State Council on January 30, 2013 and became effective on March 1, 2013, the copyright of computer software is protected by the Copyright Law. Authors and other copyright owners may register their works with the registration authority recognized by the copyright administration department under the State Council.

Pursuant to the Regulations on Protection of Computer Software (《計算機軟件保護條例》) promulgated by State Council on December 20, 2001, last amended on January 30, 2013 and became effective on March 1, 2013, and the Measures for Registration of Copyright of Computer Software (《計算機軟件著作權登記辦法》) promulgated by National Press and Publication Administration (being re-organized to the National Copyright Administration) on February 20, 2002 and became effective on the same date, Chinese citizens, legal entities or other organizations enjoy the copyright in the software which they have developed, whether published or not. A software copyright owner may register with the software registration institution recognized by the copyright administration department of the State Council.

Domain Name

Pursuant to the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) promulgated by the Ministry of Industry and Information Technology of the People's Republic of China (hereinafter referred to as the "**MIIT**") on August 24, 2017 and became effective on November 1, 2017, any party that provides internet domain name services or carries out operation, maintenance, supervision and administration thereof and other relevant activities within the territory of the People's Republic of China must observe the

Administrative Measures for Internet Domain Names. Any party that has domain name root servers, the institution for operating domain name root servers, the domain name registry and the domain name registrar within the territory of China shall obtain a permit for this purpose from the MIIT or the communications administration of the local province, autonomous region or municipality directly under the Central Government. A permit for being licensed as an institution for operating domain name root servers, a domain name registry or a domain name registrar shall be valid for five years.

LAWS AND REGULATIONS RELATING TO LABOR PROTECTION

Labor Law and Labor Contracts

Pursuant to the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) promulgated by the SCNPC on July 5, 1994, amended and became effective on August 27, 2009 and December 29, 2018, employers shall establish and perfect their rules and regulations in accordance with the laws and ensure that laborers enjoy labor rights and fulfill labor obligations. The employer shall establish and enhance its system for labor safety and sanitation, strictly abide by State rules and standards on labor safety and sanitation, provide laborers with training in labor safety and sanitation, prevent accidents in the process of work, and reduce occupational hazards. The employer shall provide laborers with labor safety and sanitation conditions that meet State stipulations, necessary gears for labor protection, and regular health examination for laborers engaged in work with occupational hazards.

The Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) promulgated by the SCNPC on June 29, 2007, amended on December 28, 2012 and became effective on July 1, 2013, and the Regulation on the Implementation of the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》) promulgated by the State Council on September 18, 2008 and became effective on the same day set out specific provisions in relation to the execution, the terms and the termination of a labor contract and the rights and obligations of the employees and employers, respectively. An employer establishes an employment relationship with an employee from the date when the employer puts the employee to work. A written labor contract shall be concluded in the establishment of an employment relationship. When an employer employs an employee, it shall faithfully inform him of the work duties, conditions and location, occupational harm, safe production condition, remuneration, and other information which the employee requires to be informed.

Social Insurance

Pursuant to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) promulgated by the SCNPC on October 28, 2010, as amended and became effective on December 29, 2018, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) promulgated on January 22, 1999 and revised on March 24, 2019, and the Regulation on Work-Related Injury Insurance (《工傷保險條例》) promulgated on April 27, 2003 and as amended on December 20, 2010, the Regulations on Unemployment Insurance (《失業保險條例》) promulgated on January 22, 1999 and became effective on the date of promulgation by the State Council, and the Trial Measures for Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) promulgated by the former Ministry of Labor on December 14, 1994 and became effective on January 1, 1995, employers within the territory of the People's Republic of China shall pay social insurance premiums in accordance with the laws. Where an employer fails to handle social insurance registration, the social insurance administrative department has the power to order it to make rectification within a prescribed time limit and, if it fails to do so within the prescribed time limit, impose a fine of 1-3 times the amount of the social insurance premiums payable upon it, and a fine of not less than RMB500 but not more than RMB3,000 upon the directly responsible person in charge and other directly responsible persons. Where an employer fails to pay social insurance premiums on time or in full amount, the collection agency of social insurance premiums has the power to order it to pay or make up the deficit of premiums within a prescribed time limit, and impose a daily overdue fine at the rate of 0.05% of the amount in default from the due date; and if it still fails to pay the premiums within the prescribed time limit, the relevant administrative department has the power to impose a fine of 1-3 times the amount in default upon it.

Housing Fund

Pursuant to the Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》) promulgated by the State Council on April 3, 1999 and became effective on the same day and amended on March 24, 2002 and March 24, 2019, employers in the PRC are required to contribute to housing fund. A company shall register at the housing provident fund management center within 30 days from the date of its establishment, and open a housing provident fund account at the entrusted bank on behalf of its employees within 20 days from the date of the registration. A company shall pay and deposit housing provident fund on time and in full, and may not be overdue in the payment and deposit or underpay the housing provident fund. The payment and deposit rates for housing provident fund for both the company and employees shall not be less than 5% of the average monthly salary of such individual employees for the previous year. Where a company fails to undertake payment and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund account for its employees, the housing provident fund management center has the power to order it to go through the formalities within a prescribed time limit; and where such company fails to do so at the expiration of the time limit, a fine of not less than RMB10,000 and not more than RMB50,000 shall be imposed. Where a company is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management center has the power to order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory fulfilment of payment obligation.

Occupational Diseases Prevention and Control

Pursuant to the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) promulgated by the SCNPC on October 27, 2001 and subsequently amended on December 31, 2011, July 2, 2016, November 4, 2017 and December 29, 2018, an employer shall establish and improve its accountability system for prevention and treatment of occupational diseases, enhance the management of, and improve the standards thereof, and bear the liability for the occupational disease hazards produced in the unit. For construction projects, including new construction, expansion and reconstruction projects, and projects for technical upgrading and introduction (hereinafter collectively referred to as "**construction projects**") that may produce occupational disease hazards, the company responsible for the project shall, during the period of feasibility study, carry out a preliminary assessment on occupational disease hazards. The preliminary assessment report on occupational disease hazards shall include the assessment of the risks of occupational disease hazard that the construction project may face and of the impacts that such hazards may have on the workplace and workers' health, and identify the types of the hazards and the measures to be taken for the prevention of occupational diseases. The expenditure for the establishment of the facilities for the prevention and control of occupational diseases of a construction project shall be included in the budget of the project, and such facilities shall be designed, constructed, and put into production and use at the same time with the main construction. Before accepting a construction project upon its completion in the inspection and acceptance, the construction unit shall have the effect of occupational disease hazard control assessed in relation to the project. For the construction project, it may be put into production and use upon completion only after its occupational disease control and prevention facilities, which shall be subject to inspection by the construction unit in accordance with the laws, pass the inspection and acceptance.

The Measures for the Supervision and Administration of "Three Simultaneities" of Facilities for the Prevention and Control of Occupational Diseases of Construction Projects (《建設項目職業病防護設施「三同時」監督管理辦法》), promulgated by the Former SAWS on March 9, 2017 and became effective on May 1, 2017, has stipulated detailed provisions which includes conducting an occupational disease hazard preliminary assessment, evaluating and reviewing the design of the protective facilities for occupational diseases and the results of occupational disease hazard control, and carrying out the inspection and acceptance of the protective facilities for occupational diseases for construction projects that may produce occupational disease hazards. The administrations of work safety of all the local people's governments above the county level shall exercise classified and hierarchical regulation of "Three Simultaneous" of facilities for the prevention and control of occupational diseases of construction projects in an area of the competence defined by the people's governments at the same level within their jurisdiction according to the laws and the specific measures shall be formulated by the administrations of work safety at the provincial level and filed with the State Administration of Work Safety. In case of violation of relevant regulations, the company may face the legal risk of fines, suspension and closure.

Pursuant to the Administrative Provisions on Occupational Health in the Workplace (《工作場所職業衛生管理規定》) promulgated by the National Health Commission on December 31, 2020 and became effective on February 1, 2021, the employer with serious occupational hazards shall engage an occupational health technical service institution with the corresponding qualification to conduct the assessment of factors of occupational hazards at least once each year, and evaluate the current situation of occupational hazards at least once every three years.

LAWS AND REGULATIONS RELATING TO TAX IN THE PRC

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) formulated by the NPC on March 16, 2007, last amended by the SCNPC and became effective on December 29, 2018, a non-resident enterprise having offices or establishments inside China shall pay enterprise income tax (at the enterprise income tax rate of 25%) on its incomes derived from China and on incomes that it earns outside China but which has real connection with the said offices or establishments. The enterprise income tax on high- and new-tech enterprises that are greatly supported by the State shall be levied at the reduced tax rate of 15%.

Pursuant to the Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on December 6, 2007 and amended on April 23, 2019, dividends paid by a foreign-invested enterprise to overseas investors are subject to PRC withholding tax at a rate of 10%, unless otherwise provided in the tax treaty signed by the PRC government and other jurisdictions. However, pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) promulgated by the State Taxation Administration on August 21, 2006 and became effective on the same date, the withholding tax in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise shall be 5% of the total dividends if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. In addition, pursuant to the Measures for Non-resident Taxpayers' Enjoyment of Treaty Benefits (《非居民納稅人享受協定待遇管理辦法》) promulgated by the State Taxation Administration on October 14, 2019 and became effective on January 1, 2020, in respect of enjoying tax benefits under the tax treaty, non-resident enterprises, who have tax obligations in China and need to claim treaty benefits shall be handled in the manner of "self-assessment, claim for and enjoyment of treaty benefits, and maintain relevant documents for inspection." If a non-resident taxpayer determines through self-assessment that he or she is eligible for treaty benefits, he or she may, when filing tax returns, or when a withholding agent files withholding returns, enjoy tax treaty benefits, and shall collect and maintain relevant documents for inspection in accordance with these Measures and accept the follow-up administration of tax authorities.

Value-added Tax ("VAT")

Pursuant to the Notice of the Ministry of Finance and the State Taxation Administration on Overall Implementation of the Pilot Program of Replacing Business Tax with Value-Added Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) promulgated by Ministry of Finance and the State Taxation Administration on March 23, 2016, and became effective on May 1, 2016 and the Measures for Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax (《營業稅改徵增值稅試點實施辦法》) (hereinafter referred to as the "**Measures for VAT**") promulgated by Ministry of Finance and the State Taxation Administration on December 12, 2013, and became effective on January 1, 2014 (some measures of them are no longer effective), with the approval of the State Council, since May 1, 2016, the pilot program of replacing business tax with VAT shall be implemented across the country. All business tax taxpayers in the construction industry, the real estate industry, the financial industry, and the living service industry shall be included in the scope of the pilot program, and the payment of business tax shall be replaced by the payment of VAT. The entities and individuals that sell services, intangible assets or immovable properties within the territory of the People's Republic of China are VAT payers, and shall pay VAT instead of business tax in accordance with the Measures for VAT.

Pursuant to the Decision of State Council on Abolition of the Provisional Regulations of the People's Republic of China on Business Tax and Revision of the Provisional Regulations of the People's Republic of China on VAT (《國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》) promulgated on November 19, 2017 and became effective on the same day, business tax is officially replaced by VAT.

Pursuant to the Interim Regulations of the PRC on VAT (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on December 13, 1993 and became effective on January 1, 1994, and subsequently amended on November 5, 2008, February 6, 2016 and November 19, 2017, respectively, and its Implementation Regulations (《中華人民共和國增值稅暫行條例實施細則》) promulgated by the Ministry of Finance and came into force on December 25, 1993 and amended on December 15, 2008 and October 28, 2011, the VAT payable tax amount shall be calculated based on the output tax amount for the current period minus the input tax amount for the current period. The VAT rate is 17% or 11% in some limited cases, depending on the product category.

Pursuant to the Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》) issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on March 20, 2019 and became effective on April 1, 2019, the tax rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%; and the tax rate of 10% applicable thereto shall be adjusted to 9%.

Environmental Protection Tax

Pursuant to the Environmental Protection Tax Law of the People's Republic of China (《中華人民共和國環境保護稅法》) promulgated by the SCNPC on December 25, 2016 and amended on October 26, 2018, and the Regulation on the Implementation of the Environmental Protection Tax Law of the People's Republic of China (《中華人民共和國環境保護稅法實施條例》) promulgated by the State Council on December 25, 2017 and became effective on January 1, 2018, the enterprises that directly discharge taxable pollutants to the environment are taxpayers of environmental pollution tax. "Taxable pollutants" means air pollutants, water pollutants, solid wastes and noises and the payable tax shall be determined by using the following methods: (1) the tax basis for taxable air pollutants shall be determined on the basis of the pollution equivalents converted from pollutant emissions; (2) the tax basis for taxable water pollutants shall be determined on the basis of the pollutant equivalents converted from pollutant discharges; (3) the tax basis for taxable solid wastes shall be determined on the basis of the discharges of solid wastes; (4) the tax basis for taxable noises shall be determined on the basis of the decibels in excess of the standards as prescribed by the State.

Real Estate Tax

Pursuant to the Interim Regulations of the People's Republic of China on Real Estate Tax (《中華人民共和國房產稅暫行條例》) promulgated by the State Council on September 15, 1986 and revised on January 8, 2011, real estate tax will be levied in cities, county towns, designated townships and industrial and mining areas, which is payable by the title owner of the property. The real estate tax will be calculated on the residual value of the property at a rate of 1.2%, or on the rental income from the property at a rate of 12%.

Pursuant to the Decision of the Standing Committee of the National People's Congress on Authorizing the State Council to Launch a Pilot Reform of Property Tax in Certain Regions (《全國人民代表大會常務委員會關於授權國務院在部分地區開展房地產稅改革試點工作的決定》) (hereinafter referred to as the "**Decision on the Pilot Reform of Property Tax**") promulgated by the SCNPC on October 23, 2021 and became effective on the same date, the State Council is authorized to pilot property tax reforms in certain regions. Property tax shall be levied on all types of residential and non-residential property in pilot areas, excluding lawfully-owned rural homesteads and houses built on them. Taxpayers of the property tax are the holders of land-use rights and house owners. Non-residential property shall be governed by Interim Regulations of the People's Republic of China on Real Estate Tax and Interim Regulations of the People's Republic of China on Urban and Town Land Use Tax. The period for the Decision on Pilot Reform of Property Tax will be five years from the date on which the State Council promulgates pilot measures.

Urban and Town Land Use Tax

Pursuant to the Interim Regulations of the People's Republic of China on Urban and Town Land Use Tax (《中華人民共和國城鎮土地使用税暫行條例》) promulgated by the State Council on September 27, 1988 and last amended on March 2, 2019, entities using land within the geographical scope of cities, counties, designated towns, industrial and mining areas shall pay land use tax. Land use tax shall be calculated on the basis of the areas of land actually occupied by the taxpayers and shall be levied based on the specified amount of tax, for example, the annual amount of land use tax per square meter is RMB1.5 to 30 in large cities.

Urban Maintenance and Construction Tax

Pursuant to the Interim Regulation of the People's Republic of China on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設税暫行條例》) promulgated by the State Council on February 8, 1985, amended on January 8, 2011 and lapsed on September 1, 2021, and the Law of the People's Republic of China on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設税法》) issued by the SCNPC on August 11, 2020 and became effective on September 1, 2021, all entities and individuals who are taxpayers of consumption tax, value-added tax and business tax shall pay city maintenance and construction tax in accordance with these regulations. The calculation of city maintenance and construction tax shall be based on the amount of consumption tax, value-added tax and business tax actually paid by such taxpayers, and such tax shall be paid together with the payment of consumption tax, value-added tax or business tax. For taxpayers located in urban areas, the rate is 7%; for taxpayers located in counties or townships, the rate is 5%; for taxpayers located in areas other than urban area, counties and townships, the rate is 1%.

Educational Surcharges

Pursuant to the Interim Provisions on the Collection of Educational Surcharges (《徵收教育費附加的暫行規定》) promulgated by the State Council on April 28, 1986 and last amended on January 8, 2011, entities and individuals obliged to pay consumption tax, value-added tax and business tax shall pay educational surcharges, except for entities paying surcharges for rural education under the Notice of the State Council on Raising Funds for Running Schools in Rural Areas (Guofa No. 174 [1984]) (《國務院關於籌措農村學校辦學經費的通知》(國發[1984] 174號文)). Educational surcharges shall be collected on the basis of the amount of value-added tax, business tax or consumption tax actually paid by such entities and individuals, collected at the rate of 3%, and paid simultaneously with value-added tax, business tax or consumption tax. The administration of the collection of educational surcharges shall be governed by relevant provisions on consumption tax, value-added tax and business tax.

Laws and Regulations Relating to Bills

On August 28, 2004, the SCNPC published the "Negotiable Instruments Law of the People's Republic of China (2004 Amendment)" (《中華人民共和國票據法(2004修正)》) (hereinafter referred to as the "**Negotiable Instruments Law**"), which became effective on the same day.

According to the Negotiable Instruments Law, the issue, acquisition and endorsement of the bills shall be made under the principle of good faith and supported by actual transaction or pre-existing debt relationship. The following conducts may be subject to criminal liability or administrative penalties: (i) the act of forging or altering a negotiable instrument; (ii) the act of deliberately using forged or altered negotiable instruments; (iii) the act of issuing blank checks or deliberately issue checks on which the signature or seal does not tally with the signature or seal in the true name pre-submitted for counter-checking; (iv) the act of issuing a draft or a promissory note without a reliable source of funds in order to obtain money by deception; (v) the act by the drawer of a draft or a promissory note to make false recordings at the time of draft in order to obtain property or money by deception; (vi) the act of using negotiable instruments of others or deliberately use negotiable instruments overdue or voided in order to obtain property and money by deception; and (vii) a payer has committed one of the aforesaid acts in vicious collaboration with the drawer or the holder.

According to the provisions of the Negotiable Instruments Law, after the payer has paid the draft amount in full, the liabilities of all instrument debtors shall be relieved.

Pursuant to the Implementation Measures for the Administration of Negotiable Instruments (2011 Revision) (《票據管理實施辦法(2011修訂)》) amended by the State Council on January 8, 2011 and effective on the same day, the PBOC is the competent authority governing and administering negotiable instruments.

During the Track Record Period, the Company endorsed bills to its related party without actual transaction or debt relationship. As advised by the PRC Legal Advisors, the endorsement was not in compliance with the Negotiable Instruments Law as it was not supported by actual transaction or debt relationships. However, the endorsement without actual transaction or debt relationship does not constitute any of the above-mentioned conducts which may be subject to administrative penalties or criminal liabilities in accordance with the Negotiable Instruments Law.

Laws and Regulations Relating to Private Lending

Pursuant to the General Rules for Loans (《貸款通則》) promulgated by the PBOC on June 28, 1996, for lending and borrowing, including those in covert form, are conducted between enterprises without authorization, the PBOC has the power to impose a fine of not less than the amount but not more than five times the amount of illegal income on the lender and enforce a loan on such activities.

Pursuant to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (2020 Second Amendment) (「最高人民法院關於審理民間借貸案件適用法律若干問題的規定(2020第二次修正)」) (hereinafter referred to as the "**Judicial Interpretation of Private Lending of the SPC**") issued by the Supreme People's Court on December 29, 2020, for a private lending contract between legal persons as needed for production and operation, except for those in violation of mandatory provisions of laws and regulations, if either party claims that the private lending contract is valid, the People's Court shall generally support the claim.

During the Track Record Period, the Company's endorsement of the bills to its related parties without actual transaction or pre-existing debt relationship may be deemed as a private lending to the related parties. As advised by the PRC Legal Advisors, the private lending violates the provisions of the General Rules for Loans. However, as the latest Judicial Interpretation of Private Lending of the SPC has confirmed the validity of the private loan under certain circumstances and the Company has not received any illegal income from the private lending, the risk of the Company being subject to administrative penalty under the General Rules for Loans is remote.

REGULATORY DEVELOPMENTS ON OVERSEAS LISTING

New Measures on Overseas Listing Filings

The China Securities Regulatory Commission (the "**CSRC**") promulgated Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Overseas Listing Trial Measures**") and five relevant guidelines on February 17, 2023, which became effective on March 31, 2023. The Overseas Listing Trial Measures regulate both direct and indirect overseas offering and listing by PRC domestic companies by adopting a filing-based regulatory regime.

According to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to complete the filing procedure with the CSRC and report relevant information. The Overseas Listing Trial Measures provide that no overseas offering and listing shall be made under any of the following circumstances: (i) such securities offering and listing is explicitly prohibited by provisions in laws, administrative regulations and relevant state rules; (ii) the intended securities offering and listing may endanger national security as reviewed and determined by competent authorities under the State Council in accordance with the laws; (iii) the PRC domestic company intending to make the securities offering and listing, or its controlling shareholder and the actual controller, have committed relevant crimes such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; (iv) the PRC domestic company intending to make the securities offering and listing is currently under investigations for suspicion of criminal offenses or major violations of laws and regulations, and no conclusion has yet been made thereof; or (v) there are material ownership disputes over equity held by the domestic company's controlling shareholder or by other shareholders that are controlled by the controlling shareholder and/or actual controller.

The Overseas Listing Trial Measures also provide that if the issuer both meets the following criteria, the overseas securities offering and listing conducted by such issuer will be deemed as indirect overseas offering subject to the filing procedure set forth under the Overseas Listing Trial Measures: (i) the PRC domestic companies account for more than 50% of the issuer's operating income, total profits, total assets or net assets (for the most recent fiscal year); and (ii) the issuer's business activities are substantially conducted in mainland China, or its principal place of business are located in mainland China, or the senior managers in charge of its business operations and management are mostly Chinese citizens or domiciled in Mainland China. Where an issuer submits an application for an initial public offering to competent overseas regulators, such issuer must file with the CSRC within three business days after such application is submitted. The Overseas Listing Trial Measures also require subsequent reports to be filed with the CSRC on material events, such as change of control or voluntary or forced delisting of the issuer who has completed overseas offerings and listings.

Our PRC Legal Advisors are of the view that we are required to comply with the filing requirements under the Overseas Listing Trial Measures. We have completed the filing procedure with the CSRC with respect to the listing of our Shares on the Stock Exchange and for the Global Offering on January 2, 2024.

On December 27, 2021, the NDRC and the MOC published the latest Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021) (the "**2021 Negative List**"). Article 6 of the Interpretation Note of the 2021 Negative List ("**Article 6**") provides that "where a domestic enterprise engaged in the business in the prohibited areas of the 2021 Negative List seeks to issue and list its shares overseas, it shall complete the examination process and obtain approval of the relevant competent authorities of the State, and that a foreign investor shall not participate in the operation and management of the enterprise, and its shareholding percentage shall be subject to the relevant provisions on the administration of domestic securities investment by foreign investors." Our PRC Legal Advisors are of the view that as the business of the Group does not fall into the prohibited category of the 2021 Negative List, Article 6 would not apply to the Group's listing and the Group is not required to obtain governmental approval for the Listing.

OVERVIEW

We are a renowned toluene derivative products provider in the PRC and the global market, primarily focusing on the manufacture of toluene oxidation, and chlorination products and benzoic acid ammonification products. Our toluene derivative products enjoy broad market appeal for food preservatives, household chemicals, animal feed acidifier and synthetic intermediates for agrochemical as well as pharmaceutical uses.

Our history traces back to 1946, when Yisheng Yanhao Hankou Fenhao (怡生鹽號漢口分號) ("**Yisheng Yanhao**") the predecessor of Wuhan Youji, our first operating subsidiary, was founded. As the corporate and shareholding structure continued to evolve over the years, Mr. Gao Yuankun (高元坤), the father of our non-executive Director, Mr. Gao, became an indirect shareholder of Wuhan Youji in 2004, and handed over the management of Wuhan Youji to Mr. Gao gradually after Mr. Gao joined our Group in April 2010 and became a Director in September 2016. For details of the industry experience of Mr. Gao, please refer to "Directors and Senior Management – Directors – Non-executive Directors" in this prospectus.

BUSINESS MILESTONES

The following is a summary of our key business development milestones since our inception.

Year	Event
1946	• Yisheng Yanhao, the predecessor of our principal operating subsidiary, was established in Wuhan
1980	• We were awarded the national quality award silver medal (國家質量獎銀質獎章) by the National Economic Commission (國家經濟委員會) of the PRC
2006	• We established Qianjiang Xinyihong, a subsidiary wholly owned by Wuhan Youji
2011	• We were named an innovative enterprise in Hubei (湖北省創新型企業) by the Hubei Provincial Department of Science and Technology (湖北省科學技術廳)
2014-2015	• We participated in the drafting of national food safety standards for benzoic acid and sodium benzoate
2015-2016	• We were named a "Top 10 Enterprises in China's Light Industry Food Additives and Ingredients Industry" (中國輕工業食品添加劑和配料行業十強企業) by the China Food Additives and Ingredients Association (中國食品添加劑和配料協會) and the China National Light Industry Federation (中國輕工業聯合會)
2016	• We relocated our Wuhan production base to our current site in Wuhan Chemical Industrial Park

Year	Event
	• We participated in the revision of national chemical industry standard of benzyl chloride for industrial use
2017-2019	• We were named a "Top 50 Enterprises in China's Light Industry Food Industry" (中國輕工業食品行業五十強企業) by the China National Light Industry Federation (中國輕工業聯合會)
2017	• We were awarded the Green Energy Efficiency Award (綠色節能獎) by China Chemical Energy Conservation Technology Association (中國化工節能技術協會) and Benzoic Acid Energy Conservation and Green Manufacturing Professional Committee (苯甲酸節能綠色製造專業委員會)
2018	• We were included in the third batch of Green Manufacturing List (第三批綠色製造名單) released by the General Office of the Ministry of Industry and Information Technology (工業和信息化部辦公廳) and were awarded as a Green Factory (綠色工廠)
2020	• We were ranked 65th on the 2020 China Top 100 Fine Chemical Corporates List (2020中國精細化工百強榜單) released by China Fine Chemical Raw Material & Intermediate Industry (全國精細化工原料及中間體行業協作組), China National Intelligence and Information Association (中國化工情報信息協會) and China National Chemical Information Center (中國化工信息中心)
2021	• We were ranked 65th on the 2021 China Top 100 Fine Chemical Corporates List (2021中國精細化工百強榜單) released by China Fine Chemical Raw Material & Intermediate Industry (全國精細化工原料及中間體行業協作組), China National Intelligence and Information Association (中國化工情報信息協會) and China National Chemical Information Center (中國化工信息中心)
2022	• We were ranked 63rd on the 2022 Hubei Top 100 Private Manufacturing Enterprises List (湖北民營企業製造業100強) released by the Hubei Provincial Industry and Commerce Confederation (湖北省工商業聯合會)

OUR MAJOR SUBSIDIARIES

The table below sets forth information about our operating subsidiaries which made a material contribution to our results of operations during the Track Record Period.

Name of subsidiary	Date and place of establishment	Principal business activities	Ownership as of the Latest Practicable Date	Major shareholding changes during the Track Record Period
Wuhan Youji	January 12, 1990, PRC	Manufacture of toluene derivative products	100%	None
Qianjiang Xinyihong	December 5, 2006, PRC	Manufacture of toluene derivative products	100%	None
Hubei Kangxin	December 12, 2018, PRC	Trading of toluene and its derivative products	100%	None

EVOLUTION OF OUR GROUP

Predecessor of Wuhan Youji

In 1946, Yisheng Yanhao, the predecessor of Wuhan Youji, was established by Shanghai Dasheng Trading Company (上海大生貿易公司) to engage in the sale business. In 1956, Youji Plant became a public-private partnership and was renamed to Xinkang Chemical Plant (新康化工廠). In 1966, it was restructured into a state-owned enterprise by merging with Wuhan Changfeng Chemical Plant (武漢長豐化工廠), and renamed back to Wuhan Youji Synthetic Chemical Plant (武漢有機合成化工廠).

Incorporation and Early Corporate Development

On May 30, 1981, Wuhan Youji was established in the PRC as an enterprise owned by the whole people (全民所有制公司) under its former name of Wuhan Youji Synthetic Chemical Plant (武漢有機合成化工廠), with an initial registered capital of RMB11,413,213. On January 12, 1990, Wuhan Youji was re-registered under the name of Wuhan City Wuhan Youji Synthetic Chemical Plant (武漢市武漢有機合成化工廠) with a registered capital of RMB14,380,000.

On June 18, 1994, Wuhan Youji was converted into a joint stock company and renamed to Wuhan Youji Industries Joint Stock Co., Ltd. (武漢有機實業股份有限公司). Upon completion of the conversion, Wuhan Youji had a share capital of RMB32,970,000, in which RMB30,370,000, or 92.12%, were subscribed by Wuhan Chemical State-owned Assets Management Co., Ltd. (武漢市化工國有資產經營有限責任公司) ("**Wuhan Chemical SAM**"). The following table sets forth the shareholding structure of Wuhan Youji upon completion of the conversion.

Shareholder	Registered capital subscribed	Percentage interest
	(RMB)	
Wuhan Chemical SAM	30,370,000	92.12%
Wuhan Chemical Import and Export Corporation (武漢市化工進出口公司)	2,000,000	6.06%
Hubei Chemical Import and Export Corporation (湖北省化工進出口公司)	500,000	1.52%
Shanghai Wanguo Securities Co., Ltd., Wuhan Branch (上海萬國證券股份有限公司武漢營業部)	100,000	0.30%
Total	32,970,000	100.00%

Pursuant to the approval of the Wuhan Federation of Trade Union (武漢市總工會) on April 23, 1994 and Wuhan Economic System Reform Commission (武漢市經濟體制改革委員會) on April 5, 1996, the Wuhan Youji Employee Trust (武漢有機職工合股基金) (the "**Employee Trust**") was established by Wuhan Youji to hold shares in Wuhan Youji for the benefit of certain Wuhan Youji's employees. Following a capital increase, the Employee Trust, which acted as an investor in Wuhan Youji to exercise the rights and powers as a shareholder of Wuhan Youji and was represented by the Wuhan Youji labor union, subscribed for RMB10,000,000 in the share capital of Wuhan Youji. Pursuant to the articles of association of Wuhan Youji, the Employee Trust enjoyed the same shareholder rights as other shareholders of Wuhan Youji. The following table sets forth the shareholding structure of Wuhan Youji upon completion of the capital increase and subscription by the Employee Trust.

Shareholder	Registered capital subscribed	Percentage interest
	(RMB)	
Wuhan Chemical SAM	30,370,000	65.27%
The Employee Trust	10,000,000	21.49%
Wuhan Ruida Technology Co., Ltd. (武漢瑞達科技有限公司)	2,400,000	5.16%
Wuhan Chemical Import and Export Corporation (武漢市化工進出口公司)	2,000,000	4.30%
Employees of Wuhan Youji (內部職工股)	1,160,000	2.49%
Hubei Chemical Import and Export Corporation (湖北省化工進出口公司)	500,000	1.07%
Shanghai Wanguo Securities Co., Ltd., Wuhan Branch (上海萬國證券股份有限公司武漢營業部)	100,000	0.22%
Total	46,530,000	100.00%

On September 20, 1996, Wuhan Youji listed 10,466,000 newly-issued shares, representing 18.74% of its enlarged share capital at the time, for trading on an over-the-counter market in Wuhan, namely Wuhan Securities Automated Quotations System (武漢證券自動報價系統) (the "**OTC Equity Interest**"). Following the closure of the Wuhan Securities Automated Quotations System by directives of the PRC central government, trading of such shares ceased on December 9, 1998.

On November 28, 2003, with the approval of the relevant government authorities, Wuhan Chemical SAM (which had then been renamed to Wuhan Gehua Group Co., Ltd. (武漢葛化集團有限公司)) transferred all its 30,370,000 shares in Wuhan Youji (representing 54.39% of Wuhan Youji's issued share) to members of the senior management of Wuhan Youji at the time, including Zhou Hongdun (周鴻墩), the president and chairman of the board of Wuhan Youji appointed on December 23, 2003. Further, since September 2004, Wuhan Linuo, a PRC industrial conglomerate founded by Mr. Gao Yuankun, the father of Mr. Gao, and Mr. Shen, started to increase their shareholding in Wuhan Youji through arm's-length acquisitions of shares from the then shareholders.

Reverse Merger with Cougar Holdings and Previous Quotation on the OTCBB

In order to seek a listing in the U.S., on June 9, 2005, Wuhan Youji entered into an acquisition agreement with, among others, Cougar Holdings Inc. ("**Cougar Holdings**"), a then Nevada-incorporated mineral company whose shares were traded on the OTCBB (ticker symbol: CGRH). In anticipation of the reverse merger, Cougar Holdings transferred all its mineral claims to its wholly-owned subsidiary, and subsequently divested itself of ownership in the said subsidiary to its then shareholders. Henceforth, Cougar Holdings no longer owned any mineral claims or had any properties to explore. Pursuant to the acquisition agreement, Cougar Holdings acquired the entire equity interest in Wuhan Youji.

On December 16, 2005, Wuhan Youji was converted into a limited liability company, and renamed to its current name, Wuhan Youji Industries Co., Ltd. (武漢有機實業有限公司). During the conversion, all OTC Equity Interest was registered under the Employee Trust such that the Employee Trust would hold equity interest in Wuhan Youji on behalf of the owners of the OTC Equity Interest (the "**OTC Shareholders**," together with the employee shareholders of Employee Trust, the "**Employee Trust Shareholders**").

After the approval of the Department of Foreign Trade and Economic Relations of Hubei Province, the reverse merger was completed on February 13, 2006. After its completion, Wuhan Youji became a wholly-owned subsidiary of Cougar Holdings and the shares in Cougar Holdings continued to be quoted on the OTCBB. The following table sets forth the shareholding structure of Cougar Holdings upon completion of the reverse merger:

Shareholder	Number of shares	Percentage interest
The Employee Trust	5,867,546	29.34%
Wuhan Linuo	5,840,023	29.20%
Hudson Capital Corporation(1)	1,045,333	5.23%
Zhou Hongdun	716,743	3.58%
Wuhan Xuanwei Trading Co., Ltd. (武漢市宣威商貿有限公司)	688,074	3.44%
Hubei Tuopu(2)	143,349	0.72%
Zaoyang Jinma Chemical Co., Ltd. (棗陽金馬化工有限公司) ("**Zaoyang Jinma**")	28,670	0.14%
Other shareholders(3)	5,670,262	28.35%
Total	20,000,000	100.00%

Notes:

(1) Hudson Capital Corporation was one of the original shareholders of Cougar Holdings.

(2) Hubei Tuopu was held as to 30% by Wu Manzhong (吳滿忠) ("**Mr. Wu**"), a current Shareholder and an independent third party, at the time.

(3) Other shareholders represented 184 public shareholders of Cougar Holdings (including employees of Wuhan Youji), all independent third parties, whose shareholdings ranged from 0.005% to 2.15%.

In December 2007, the total number of shareholders of Cougar Holdings fell to fewer than 300 persons. Pursuant to the applicable listing rules, on December 20, 2007, Cougar Holdings filed Form 15-12G with the U.S. Securities and Exchange Commission to terminate or suspend its duty to file reports pursuant to Rule 12g-4(a)(1)(i) and then became a "Dark or Defunct" company listed on the Pink open market (the "**Pink Sheets Market**"), an over-the-counter trading platform in the United States. Since then, the shares in Cougar Holdings ceased to be quoted on the OTCBB. To the best knowledge of our Directors having made all reasonable enquiries, since the completion of the reverse merger with Cougar Holdings up to the delisting of Cougar Holdings' shares from the OTCBB and the Pink Sheets Market:

(i) Cougar Holdings and all the then operating entities and subsidiaries under its control (including but not limited to Wuhan Youji) had operated in compliance in all material respects with all applicable rules of the OTCBB and the Pink Sheets Market, and had not been subject to any disciplinary action imposed by any relevant law enforcement authority; and

(ii) there are no matter in relation to its prior quotation on the OTCBB and the Pink Sheets Market and the delisting therefrom that should be brought to the attention of the Stock Exchange and investors.

Based on the independent due diligence work undertaken by the Sole Sponsor and having reviewed the underlying materials relating to the reverse merger with Cougar Holdings and previous quotation on the OTCBB, the Sole Sponsor concurs with the view of our Directors as mentioned above.

Between 2009 and 2015, Wuhan Linuo, Mr. Gao and Mr. Shen further increased their shareholding in Cougar Holdings through a series of transactions of shares in Cougar Holdings. In particular, between 2009 and 2010, Mr. Gao acquired an aggregate of 17.04% shares in Cougar Holdings from the Employee Trust and Wuhan Youji's then employees including Zhou Hongdun for an aggregate consideration of RMB42,913,593.34, which was determined after arm's length negotiations with reference to the operating results and prospects of business of Wuhan Youji at the time.

The 2016 Restructuring

With a view to providing minority shareholders of Cougar Holdings an exit option to realize their investment in Cougar Holdings following the termination of quotation on the OTCBB, in 2016, we underwent a series of restructuring (the "**2016 Restructuring**") whereby our Company became the holding company of our operating subsidiaries in place of Cougar Holdings.

In February 2016, certain shareholders of Cougar Holdings entered into certain agreements whereby they contributed their shares to CHI MergerCo ("**MergerCo**"), a Nevada corporation. Immediately after the contributions, MergerCo held at least 90% of the outstanding stock of Cougar Holdings. On March 28, 2016, MergerCo's board of directors approved a plan of merger that provided for a "short form" merger of MergerCo with and into Cougar Holdings, with Cougar Holdings as the surviving corporation. Pursuant to the merger, each share of the common stock of Cougar Holdings not owned by MergerCo would be canceled and converted into the right to receive cash in an amount equal to US$3.32 per share as determined by an appraisal report dated April 6, 2016.

The merger was consummated on March 31, 2016 and Cougar Holdings was delisted from the Pink Sheets Market on May 6, 2016. In June 2016, Mr. Gao further increased its interest in Cougar Holdings by arm's length acquisition of 9.29% and 9.15% of the shares in Cougar Holdings from Zhang Wanli and Wuhan Centelligence Investment Center, respectively, for a consideration of US$3,882,927.4 and US$3,623,481.18. Each of such transfers was settled by Mr. Gao undertaking the repayment obligations under the pre-existing loans granted by Wuhan Linuo to the transferors, who otherwise have no past or present relationship with our Company, our subsidiaries, Shareholders, Directors or senior management, or any of their respective associate. Upon the completion of the acquisitions, the shareholding structure of Cougar Holdings was as follows:

Shareholder	Number of shares	Percentage interest
Wuhan Linuo	8,244,108	41.22%
Mr. Gao	7,095,708	35.48%
The Employee Trust	3,559,266	17.80%
Mr. Shen	928,899	4.64%
Hubei Tuopu	143,349	0.72%
Zaoyang Jinma	28,670	0.14%
Total	20,000,000	100.00%

On May 26, 2016, Wuhan International Holding I Limited ("**Wuhan Holding I**") and Wuhan International Holding II Limited ("**Wuhan Holding II**") were incorporated in the BVI by Cougar Holdings. On June 27, 2016, Cougar Holdings transferred 99% and 1% of its equity interest in Wuhan Youji to Wuhan Holding I and Wuhan Holding II, respectively, whereby Wuhan Holding I and Wuhan Holding II became the direct holding companies of Wuhan Youji.

On June 29, 2016, Cougar Holdings changed its place of registration from Nevada, U.S. to Delaware, U.S. and was renamed to Cougar Holdings LLC. Later on June 30, 2016, Cougar Holdings further changed its place of registration from Delaware, U.S. to the BVI and was renamed to Cougar Holdings Limited. On the same day, Cougar Holdings conducted a share consolidation whereby its issued share capital became US$10,000 divided into 10,000 shares with a par value of US$1 per share.

On September 23, 2016, our Company was incorporated as an exempted company with limited liability in the Cayman Islands. Upon incorporation, the one subscriber share was transferred to Cougar International Growth Holding II Ltd., which in turn was wholly owned by Cougar Holdings. On September 27, 2016, Centelligence Holdings Ltd. was incorporated as a company limited by shares in the BVI by our Company ("**Centelligence BVI**"). On November 1, 2016, the then shareholders of Wuhan Holding I and Wuhan Holding II transferred their shares in the two companies to Centelligence BVI, whereby Wuhan Youji became an indirect wholly-owned subsidiary of our Company. On November 7, 2016, Centelligence BVI transferred the entire share capital of Wuhan Holding I and Wuhan Holding II to Centelligence International Holdings Limited, which in turn was directly wholly owned by Centelligence BVI.

Subsequent Share Transfers and Share Entrustment Arrangements

In order for Mr. Gao Yuankun to hand over the ownership and management of our business to Mr. Gao, his son, on September 22, 2016, Mr. Gao Yuankun caused Wuhan Linuo to transfer 5.39% of the shares in Cougar Holdings to Mr. Gao, making him the largest direct shareholder of Cougar Holdings with 40.87% of its issued shares. In addition, the remaining 35.83% shares in Cougar Holdings held by Wuhan Linuo would become held on entrustment as to 80% and 20% on behalf of Mr. Gao and Mr. Shen, respectively, representing the respective indirect shareholding of Mr. Gao Yuankun and Mr. Shen in Wuhan Linuo. The reason for Wuhan Linuo not transferring such 35.83% shares to Mr. Gao and Mr. Shen was that it was required at the time to maintain such assets on its balance sheet to satisfy certain bank loan requirements.

After the Reorganization, Mr. Gao and Mr. Shen held Shares in our Company through their respective investment holding vehicles. Therefore, the share entrustment arrangements between Wuhan Linuo, Mr. Gao Yuankun and Mr. Shen is no longer relevant to the shareholding structure of our Company.

On September 11, 2017, Mr. Shen acquired 0.14% of the shares in Cougar Holdings from Zaoyang Jinma for a consideration of RMB848,000, which was determined after arm's length negotiation between the parties. At the time of the acquisition, Zaoyang Jinma was owned as to 60.07% by Zhang Lijin (張利進), an independent third party. Since the completion of the above share transfers and up to the Reorganization, the shareholding structure of Cougar Holdings was as follows:

Shareholder	Number of shares	Percentage interest
Mr. Gao	4,087	40.87%
Wuhan Linuo	3,583	35.83%
The Employee Trust	1,780	17.80%
Mr. Shen	478	4.78%
Hubei Tuopu	72	0.72%
Total	10,000	100.00%

On February 11, 2019, Mr. Gao acquired 1.40% of the shares in Cougar Holdings from the Employee Trust, which were beneficially owned by the Wuhan Youji labor union, for a consideration of RMB14,030,209.55, which was determined with reference to Wuhan Youji's net asset value as of December 31, 2018. Such shares remained registered under the Employee Trust until the Reorganization.

Under the direction of Mr. Gao and Mr. Shen, on January 18, 2021, Linuo Investment agreed to set aside 6.00% of the 35.83% shares in Cougar Holdings entrusted to it for awards pursuant to the share incentive scheme detailed in "— Employee Shareholding Platforms." Thereafter, Linuo Investment continued to hold the remaining 29.83% shares in Cougar Holdings on entrustment for Mr. Gao and Mr. Shen. See "— Evolution of our Group — Subsequent Share Transfers and Share Entrustment Arrangements" for details of the share entrustment arrangement.

ACQUISITIONS, DISPOSALS AND MERGERS

Major Acquisitions, Disposals and Mergers

Throughout the Track Record Period, we did not conduct any major acquisitions, mergers or disposals.

Post-Track Record Period Acquisitions

We have not acquired, agreed to acquire or proposed to acquire any business or subsidiary after the Track Record Period.

EMPLOYEE SHAREHOLDING PLATFORMS

On January 18, 2021, Cougar Holdings approved and adopted a share incentive scheme, pursuant to which Linuo Investment agreed to award 600 shares in Cougar Holdings to 104 then employees of our Group. The share awards were subject to an award price of RMB48,511.31 per share, which was the net asset value per share of our Company as of December 31, 2020 deducting distributable dividends of RMB795 million, and was fully settled by the grantees in cash on November 29, 2021. Due to the fact that the SAFE registration of the employees had not been completed by the time, the shares deliverable under the share incentive scheme remained to be held by Linuo Investment.

During the Reorganization, the 600 shares in Cougar Holdings granted by Linuo Investment, representing all shares deliverable under the share incentive scheme, were replaced with 4,500,000 Shares in our Company held by three employee shareholding platforms, namely NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd. (the "**Employee Shareholding Platform(s)**") since April 1, 2022. See "— Reorganization." Each recipient of share awards is entitled to the shareholders' rights associated with the number of Shares held by the relevant Employee Shareholding Platform(s) that corresponds to their proportional shareholding therein. The Employee Shareholding Platforms remain the legal owners of, and control the voting rights attached to, all Shares held by them. The following table sets forth the shareholding structure of each Employee Shareholding Platform:

	Percentage interest			
Name of grantee	NovaVision Holdings I Ltd.	NovaVision Holdings II Ltd.	NovaVision Holdings III Ltd.	Position in our Group
Zou Xiaohong (鄒曉虹)	13.21%	–	4.05%	Executive Director and chairman of the Board
Zhou Xu (周旭)	13.21%	–	4.05%	Chief executive officer of our Company
Chu Shiqiong (褚世瓊)	4.72%	–	2.53%	Former employee of Wuhan Youji
Wu Jun (吳駿)	4.72%	–	2.53%	Vice president of Wuhan Youji and general manager of Hubei Kangxin
Xiao Rencheng (肖人程)	4.72%	–	2.53%	Former employee of Youji HK
Xiao Hai (肖海)	4.72%	–	2.53%	Deputy director of production of Wuhan factory of Wuhan Youji
Xiong Kun (熊坤)	4.72%	–	2.53%	Deputy general manager of Qianjiang Xinyihong
Xiang Shiyan (向世炎)	4.72%	–	2.53%	General manager of Hubei Xinxuanhong
Mr. Shen	2.86%	12.14%	0.41%	Non-executive Director
Zhang Zhongshan (張忠山)	–	6.60%	3.17%	Former employee of Wuhan Youji
Ma Yi (馬一)	–	6.60%	3.17%	Supervisor of Wuhan Youji
Shen Haifeng (沈海峰)	–	6.60%	3.17%	Chief financial officer of our Company
Guo Tao (郭濤)	–	6.60%	3.17%	General manager of Wuhan factory of Wuhan Youji

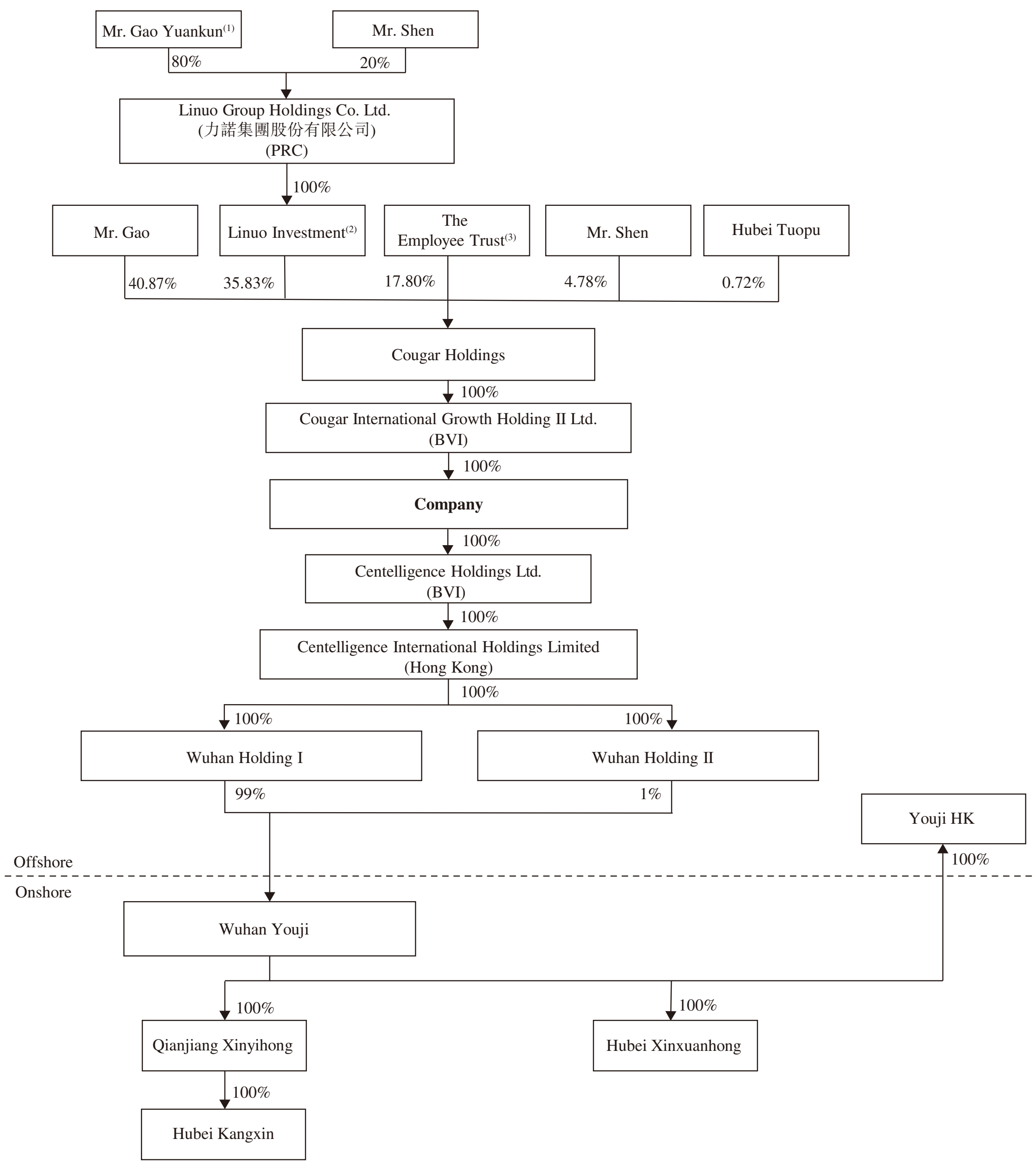
Name of grantee	Percentage interest: NovaVision Holdings I Ltd.	NovaVision Holdings II Ltd.	NovaVision Holdings III Ltd.	Position in our Group
Dang Hui (黨輝)	–	6.60%	3.17%	General manager of Qianjiang Xinyihong and executive director of Hubei Xinxuanhong and Hubei Xinlianhong
Chen Ping (陳平)	–	6.60%	3.17%	Executive Director and joint company secretary of our Company
Huang Zhengwang (黃正望)	–	6.60%	3.17%	Executive vice president of Wuhan Youji
Li Zitong (李自桐)	–	6.60%	3.17%	Former employee of Wuhan Youji
Luo Yansheng (羅炎生)	–	2.83%	5.07%	Former employee of Wuhan Youji
Fan Jinfeng (範進鋒)	–	2.83%	5.07%	Deputy director of Wuhan factory of Wuhan Youji
Sun Bo (孫波)	–	1.89%	6.33%	Vice president of Wuhan Youji
Wang Jing (王晶)	–	0.94%	0.63%	Financial director of Qianjiang Xinyihong and Hubei Xinxuanhong
Xu Yonghong (許永紅)	–	0.94%	0.63%	Director of benzyl alcohol workshop of Qianjiang Xinyihong
Zhang Xu (張旭)	–	–	8.87%	Vice president of Wuhan Youji and executive director of Hubei Kangxin
	30 others(1): 42.44%	34 others(1): 25.64%	17 others(1): 24.32%	

Note:

(1) Others represent our current and former employees who are our independent third parties and have no interest in more than one Employee Shareholding Platform. There is no unidentified grantee under the share incentive scheme.

REORGANIZATION

In preparation of the Listing, we have undergone the Reorganization. The following chart illustrates the corporate structure of our Group immediately prior to the Reorganization:



Notes:

(1) Mr. Gao Yuankun is the father of Mr. Gao, our non-executive Director.

(2) Following the consolidation of Wuhan Linuo into Linuo Investment on October 16, 2019, Linuo Investment, Wuhan Linuo's holding company, became the registered shareholder of Cougar Holdings holding (a) 6.00% of the shares in Cougar Holdings to grantees of the then share incentive scheme as detailed in "— Employee Shareholding Platforms," and (b) the remaining shares on entrustment for Mr. Gao and Mr. Shen. For details of the share entrustment arrangements, please refer to "— Evolution of our Group — Subsequent Share Transfers and Share Entrustment Arrangements" in this prospectus.

(3) The Employee Trust held 1.40% of shares in Cougar Holdings on behalf of Mr. Gao. For details, please refer to "— Evolution of our Group — Subsequent Share Transfers and Share Entrustment Arrangements" in this section.

Step 1: Establishment of the Offshore Holding Companies

On March 24, 2021, each of Vastocean Capital Limited, Custodian Capital Ltd., SYM Holdings Limited and Fullfaith Capital Limited was incorporated in the BVI as the wholly-owned holding vehicles of Mr. Gao, Mr. Gao as holder of the custodian of the Retaining Shareholders and Unresponsive Shareholders (as defined below), Mr. Shen and Mr. Wu respectively.

On October 14, 2021, NovaVision Holdings I Ltd. and NovaVision Holdings II Ltd. were incorporated in the BVI. On January 7, 2022, NovaVision Holdings III Ltd. was incorporated in the BVI. For the shareholding structure of these Employee Shareholding Platforms, please refer to "— Employee Shareholding Platforms" in this prospectus.

Mr. Gao, Mr. Shen, Mr. Wu and the above employees have completed the registration required by SAFE under Circular 37. As advised by our PRC Legal Advisors, the onshore procedure concerning Step 1 is completed.

Step 2: Arrangements for Employee Trust Shareholders

As detailed in "— Evolution of our Group — Incorporation and Early Corporate Development," the Employee Trust is a vestige of Wuhan Youji's past, holding the interests of the beneficial shareholders for more than two decades as Wuhan Youji underwent the privatization, reverse merger and offshore restructuring. The vast majority of them are not employee shareholders over whom the Employee Trust has authority but OTC Shareholders whose rights are registered by Wuhan Equity Custody and Trading Center (武漢股權託管交易中心), a regional equity market operating agency located in Hubei Province which serves as a service platform for equity custody registration, equity regulated transactions, and equity investment and financing comprehensive financial services for various small, medium and micro enterprises in Hubei Province. Therefore, with the assistance of the Wuhan Equity Custody and Trading Center, our Company through Wuhan Youji has actively sought to reach out to the beneficial owners, including survivors and heirs, with a view to resolve the historical issues with the Employee Trust.

From March 16, 2017 to December 31, 2017 and from November 20, 2021 to February 20, 2022, our Company made an offer to the then Employee Trust Shareholders with the choice to (a) sell their shareholding in Cougar Holdings at a price determined by an independent assessor or (b) retain their shares. Due to the passage of time, the Employee Trust no longer had valid contacts and identification information for each Employee Trust Shareholder. Therefore, the said share purchase offer was advertised in newspapers of Wuhan municipality and Hubei Province, China, in several rounds of notices from May to September 2017, and was posted on the website of the Wuhan Equity Custody and Trading Center.

The offer was accepted or otherwise responded to by a portion of the Employee Trust Shareholders, as follows:

Selling shareholders

For the Employee Trust Shareholders who agreed to sell their shares, such shares were acquired by Wuhan Tianyuan Deqi Trading Co. Ltd. (武漢天源德啟貿易有限公司) ("**Tianyuan Deqi**"), a company controlled by Gao Jishan (高吉山), an independent third party. The transfer of shares in relation to the first round of buyout offer in 2017, representing approximately 6.2% of the shares in Cougar Holdings held by the Employee Trust in 2017 and 2018, was conducted at the consideration of RMB36,776,276, which was determined based on the net asset value of Wuhan Youji as of September 30, 2016 as appraised by an independent valuer, while the transfer in relation to the second round of buyout offer from 2021 through 2022, representing approximately 0.5% of the shares in Cougar Holdings, was conducted at the consideration of RMB4,172,016, which was determined based on the net asset value of Wuhan Youji as of October 31, 2021, after deducting distributable dividends. The buy-out transactions for the OTC Shareholders were registered by the Wuhan Equity Custody and Trading Center.

On February 28, 2022, Tianyuan Deqi transferred approximately 6.0% and approximately 0.7% of the shares in Cougar Holdings to Mr. Shen and Mr. Gao for the consideration of RMB31,423,966.62 and RMB3,842,461.58, respectively. Such consideration was determined with reference to Wuhan Youji's net asset value as of December 31, 2021, after deducting the dividends declared at the time.

Retaining shareholders

As of May 31, 2022, 202 beneficiaries of the Employee Trust, accounting for approximately 0.78% of the shares in Cougar Holdings, had affirmatively indicated their preference to forego the buyout offer and retain their shares (the "**Retaining Shareholders**"). To preserve their rights during the Reorganization, on May 30, 2022, the Retaining Shareholders entered into a custodial agreement with Custodian Capital Ltd. whereby their shareholding interests in Cougar Holdings were transferred to Custodian Capital Ltd. Under this arrangement, the Retaining Shareholders are entitled to:

(a) all the rights and interests corresponding to the shares thereof, including the right to receive the dividends and the earnings from any share transfer; and

(b) request the transfer of their shares in Custodian Capital Ltd. to their own account or the account they designated upon 20 business days' written notice, provided that they have made the requisite registration with the PRC authorities to be able to hold overseas investment.

Except with the instruction of the Retaining Shareholders, Custodian Capital Ltd. will not exercise the voting rights attached to Shares it holds. As advised by our PRC Legal Advisors, since the Retaining Shareholders have signed custodial agreements and the Retaining Shareholders have agreed to such arrangements, such arrangements are not against the wills of the Retaining Shareholders and will not infringe their rights and interests. Further, as advised by our PRC Legal Advisors, the custodian agreements entered between the Retaining Shareholders and Custodian Capital Ltd. are not in violation of Articles 153 and 154 of the Civil Code of the PRC (《中華人民共和國民法典》), and are legal, valid, binding and enforceable under PRC laws. The Retaining Shareholders were informed by our Company via telephone calls that the right to request the sale of their shares prior to the Listing would lapse in February 2022. Their rights to request the transfer of their shares to their own account or to sell after the Listing will not lapse. Mr. Gao and Custodian Capital Ltd. undertook that Custodian Capital Ltd. would not transfer, pledge, gift or otherwise dispose of the Shares held by Custodian Capital Ltd. without proper authorization.

Unresponsive shareholders

As of May 31, 2022, 179 beneficiaries of the Employee Trust and 4,964 OTC Shareholders, collectively accounting for approximately 8.92% of the shares in Cougar Holdings, could not be reached or confirmed as having responded to the offer (the "**Unresponsive Shareholders**"). Such shares were transferred to Custodian Capital Ltd., with Mr. Gao and Custodian Capital Ltd. entering into an undertaking on May 30, 2022 that the Unresponsive Shareholders would have the ability to participate in the Listing through Custodian Capital Ltd. In addition, upon presenting proof of their beneficial title in the shares registered with the Employee Trust, the Unresponsive Shareholders will be entitled to:

(a) request the sale of their shares in Custodian Capital Ltd. and Custodian Capital Ltd. shall, subject to the applicable laws and regulations, transfer the corresponding shares to the designated account and make the payment to the Unresponsive Shareholders, provided that any such sale prior to the Listing must be completed no later than 28 clear days before the submission of the Listing application, and if any listing application is submitted by our Company to the Stock Exchange, such sale shall only be conducted after Listing;

(b) request the purchase of their shares in Custodian Capital Ltd. by Mr. Gao at fair market value, provided that any such sale prior to the Listing must be completed no later than 28 clear days before the submission of the Listing application, and if any listing application is submitted by our Company to the Stock Exchange, such sale shall only be conducted after Listing. The aforesaid fair market value shall be determined as follows:

    (i) after the Listing, the fair market value is based on the closing price of our Company on the previous trading day and the actual trading price, deducting the corresponding transaction tax;

    (ii) prior to the Listing, the fair market value is based on the book net asset value of Wuhan Youji at the end of the last month immediately prior to the acquisition;

(c) request Custodian Capital Ltd. to transfer their shares in Custodian Capital Ltd. to their own account, provided that they have made the requisite registration with the PRC authorities to be able to hold overseas investment; and

(d) request Custodian Capital Ltd. to continue holding the Shares on behalf of the Unresponsive Shareholders and enter into a new entrustment agreement between the Unresponsive Shareholders and Custodian Capital Ltd.

With a view to preserving the rights of the Unresponsive Shareholders for as long as Wuhan Youji remains an operating subsidiary of our Company, there is no time limit as to when the rights of the Unresponsive Shareholders under the above arrangement will lapse. Any dividends to be declared and paid out by our Company will be held by Custodian Capital Ltd. on behalf of the Unresponsive Shareholders and distributed to each such Unresponsive Shareholder who can prove his or her ownership of the shares. In addition, as Custodian Capital Ltd. is only the custodian of the shares owned by the Unresponsive Shareholders, it will not exercise the voting rights attached to the Shares it holds. Mr. Gao is chosen as the controlling person of Custodian Capital Ltd. because he, as our Controlling Shareholder and the largest Shareholder, is expected to be a long-term Shareholder. Any successor owner of Custodian Capital Ltd. must also agree to honor the rights of the Unresponsive Shareholders under the above arrangement. Mr. Gao also undertook to indemnify the Unresponsive Shareholders for any losses arising from claims made by any of the Unresponsive Shareholders with respect to the proposed arrangement. Custodian Capital Ltd. undertook to preserve the rights of the Unresponsive Shareholders until such Unresponsive Shareholders requested the transfer of their shares from Custodian Capital Ltd. to their own accounts after the presentation of proof of ownership of their shares.

The Local Financial Regulatory Bureau of Wuhan (武漢市地方金融工作局) has approved the above arrangement of the OTC Shareholders. The Wuhan Federation of Trade Union has instructed that the Wuhan Youji labor union should handle the arrangement of the employee shareholders, and the Wuhan Youji labor union held a staff representative meeting to confirm such arrangements according to the instructions by the Wuhan Federation of Trade Union. As advised by our PRC Legal Advisors, (i) the Local Financial Regulatory Bureau of Wuhan and the Wuhan Federation of Trade Union are the appropriate authorities of the Employee Trust Shareholders, and they have the authority to approve or give instructions of the arrangement of the Employee Trust Shareholders, and (ii) under the current circumstances, including the fact that the Company failed to notify the Unresponsive Shareholders of the above arrangements due to lack of contact information, Mr. Gao, Custodian Capital Ltd. and the Company have adopted reasonable measurements as far as possible to protect the interests of the Unresponsive Shareholders to lower the risk of potential objection brought by them.

Step 3: Repurchase and Issuance of Ordinary Shares in our Company

On March 7, 2022, our Company carried out a 1-to-10,000 share subdivision whereby our authorized share capital became US$50,000 divided into 500,000,000 Shares of US$0.0001 each (the "**Share Subdivision**").

On the same day, our Company entered into a subscription, repurchase and transfer agreement whereby we repurchased the entire 500,000,000 Shares from Cougar International Growth Holding II Ltd. ("**Cougar International**") (the "**Shares Repurchase**") for a consideration of US$5,200,000. In addition, on the same day, we allotted and issued Shares to the investment holding vehicles of Mr. Gao, Mr. Shen and Mr. Wu with reference to their respective equity interest in Cougar Holdings (the "**Share Issuance**") at par. As a result, Vastocean Capital Limited, Custodian Capital Ltd., SYM Holdings Limited, and Fullfaith Capital Limited held 54,650,842 Shares, 7,271,448 Shares, 12,537,710 Shares and 540,000 Shares, respectively, with 4,500,000 out of the 54,650,842 Shares held by Vastocean Capital Limited as nominee of the Employee Shareholding Platforms pending the underlying employees completing the requisite registration with the PRC authorities to be able to hold overseas investment. After completing the registrations on March 30, 2022, Vastocean Capital Limited transferred 4,500,000 shares to NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd. on April 1, 2022.

Step 4: Transfer of Shares to the Employee Shareholding Platforms

On April 1, 2022, the 1,639,483, 1,640,040 and 1,220,477 Shares held by Vastocean Capital Limited as nominee of the grantees of share awards were transferred to NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd..

For the corporate structure of our Group immediately after the Reorganization, please refer to "— Corporate Structure — Corporate Structure Before the Global Offering" in this prospectus.

As advised by our legal advisors as to Cayman Islands law, we have legally and properly completed, settled, and obtained the requisite legal approvals and completed requisite governmental registrations with the relevant governmental authorities in the Cayman Islands with respect to the Reorganization.

SHAREHOLDING SUMMARY OF OUR COMPANY

The following table sets out the shareholding structure of our Company as of the date of this prospectus and immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised):

Shareholder	Share	Percentage interest in our Company as of the date of this prospectus	Percentage interest in our Company upon completion of the Global Offering
Vastocean Capital Limited	50,150,842	66.86%	53.75%
Custodian Capital Ltd.	7,271,448	9.69%	7.79%
SYM Holdings Limited	12,537,710	16.72%	13.44%
Fullfaith Capital Limited	540,000	0.72%	0.58%
NovaVision Holdings I Ltd.	1,639,483	2.19%	1.76%
NovaVision Holdings II Ltd.	1,640,040	2.19%	1.76%
NovaVision Holdings III Ltd.	1,220,477	1.63%	1.31%
Total	75,000,000	100.00%	80.39%

Upon Listing, the following Shareholders will be core connected persons of our Company and hence Shares held by them will not be counted towards the public float for the purpose of Rule 8.24 of the Listing Rules:

1. Vastocean Capital Limited, which is wholly owned by Mr. Gao, our non-executive Director;

2. Custodian Capital Ltd., which is wholly owned by Mr. Gao as custodian of the Retaining Shareholders and Unresponsive Shareholders; and

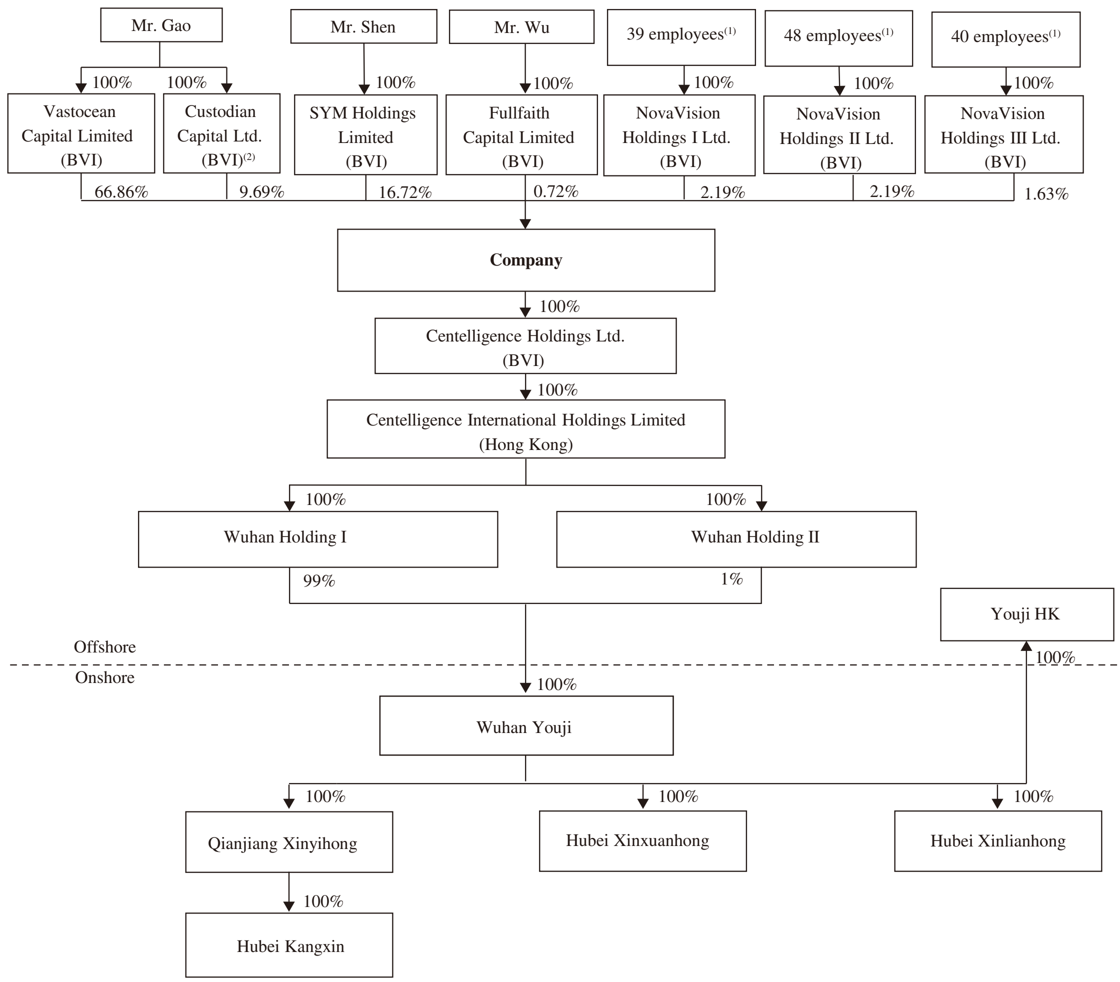
3. SYM Holdings Limited, which is wholly owned by Mr. Shen, our non-executive Director.

Accordingly, upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), 25.02% of our issued Shares will be held by the public and counted towards the public float for the purpose of Rule 8.24 of the Listing Rules.

CORPORATE STRUCTURE

Corporate Structure Before the Global Offering

The following chart sets forth the shareholding structure of our Group before the Global Offering.



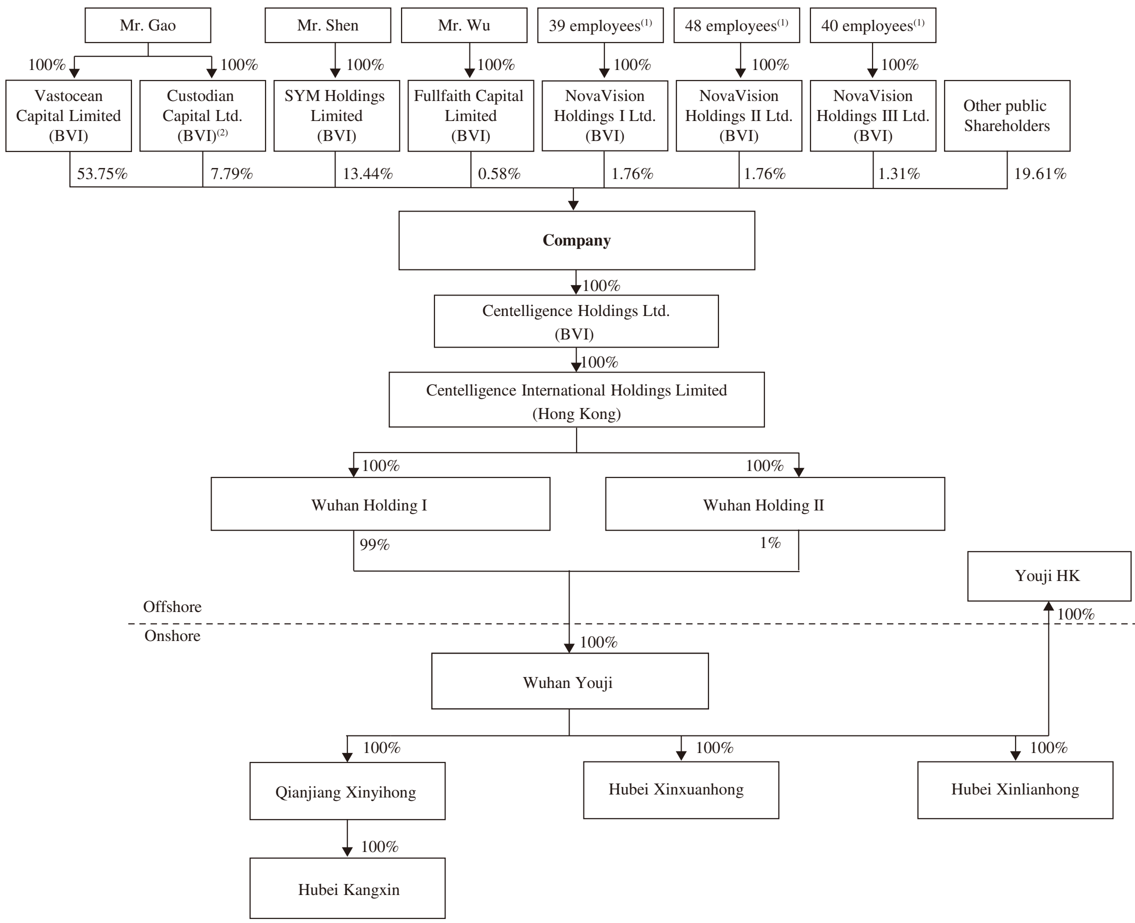
Notes:

(1) For details of the employees holding interests in the Employee Shareholding Platforms, please refer to "— Employee Shareholding Platforms" in this prospectus.

(2) Custodian Capital Ltd. holds these Shares on behalf of the Retaining Shareholders and the Unresponsive Shareholders, and will not exercise the voting rights attached to Shares it holds. For details, please refer to "— Reorganization — Step 2: Arrangements for Employee Trust Shareholders" in this prospectus.

Corporate Structure Immediately Following the Global Offering

The following chart sets forth the shareholding structure of our Group immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised).



Notes:

(1)–(2) Please refer to "— Corporate Structure — Corporate Structure Before the Global Offering" in this prospectus.

PRC REGULATORY REQUIREMENTS

M&A Rules

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**") jointly issued by the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission of the State Council, the STA, the CSRC, the State Administration for Industry and Commerce (currently known as the SAMR) and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009 with immediate effect, (i) if any PRC domestic company, enterprise or natural person merges its affiliated domestic company in the name of an offshore company legally established or controlled by the aforesaid domestic company, enterprise or natural person, it shall be subject to the approval of the Ministry of Commerce of the People's Republic of China (the "**MOC**"); (ii) require that a special purpose vehicle, formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals through acquisitions of shares of or equity interests in PRC domestic companies, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

Our PRC Legal Advisors are of the opinion that considering that Wuhan Youji was registered as a foreign-invested enterprise before the enforcement of the M&A Rules and neither our Company nor our PRC subsidiaries performed any mergers or acquisitions which may be subject to M&A Rules, Wuhan Youji was not required by Article 11 of the M&A Rules to report to the MOC for approval in relation to the Reorganization and the Listing. Hence, the Listing of our Company are not subject to the approval procedure of CSRS under the M&A Rules.

SAFE Registration in the PRC

Pursuant to the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) ("**SAFE Circular 37**"), promulgated by the SAFE and which became effective on July 14, 2014, (i) a PRC resident must register with the local SAFE branch in connection with their contribution of offshore or domestic assets or equity interests in an overseas special purpose vehicle (an "**Overseas SPV**") that is directly established or indirectly controlled by the PRC resident for the purpose of conducting overseas investment or financing, and (ii) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties. In addition, the PRC subsidiaries of that Overseas SPV may be prohibited from distributing their profits or dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the Overseas SPV and its offshore subsidiary may be restricted in their ability to contribute additional capital to their PRC subsidiaries.

Pursuant to the Circular of the SAFE on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知), promulgated by the SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE branches to local banks where the domestic entity is registered.

As advised by our PRC Legal Advisors, Mr. Gao, Mr. Shen, Mr. Wu and the employees who were granted equity interest in our Company through the Employee Shareholding Platforms, who indirectly hold Shares and are known to us as being PRC residents, have completed the required registration under SAFE Circular 37.

OVERVIEW

We are a renowned toluene derivative products provider in the PRC and the global market, primarily focusing on the manufacture of toluene oxidation and chlorination products, benzoic acid ammonification products and other fine chemical products through organic synthesis process. Our toluene derivative products are primarily used for food preservatives, household chemicals, animal feed acidifier and synthetic intermediates for agrochemical and pharmaceutical uses.

Our leading position in toluene oxidation and toluene chlorination products is substantiated by our industry ranking and market share both in the PRC and the global market. According to the Frost & Sullivan Report, we are the largest manufacturer for both benzoic acid and sodium benzoate and the second largest benzyl alcohol manufacturer in the PRC in terms of the sales revenue in 2023, representing 62.0%, 37.9% and 33.9% of the PRC total market revenue for these products in 2023, respectively. In the global market, we ranked second among manufacturers for benzoic acid and sodium benzoate and third place among manufacturers for benzyl alcohol in 2023, accounting for 37.0%, 22.4% and 20.6% of the global total market revenue, respectively.

Our operating history traces back to 1946 as one of the longest standing toluene derivative products manufacturers in China. Leveraging our PRC-based product development and manufacturing capabilities, we market and sell our products in over 70 countries. As a leader and pioneer in the industry, we are committed to the continued development and expansion of our product portfolio. As of the Latest Practicable Date, we had a self-produced product portfolio primarily consisting of five types of toluene oxidation products, two types of toluene chlorination products, two types of benzoic acid ammonification products and more than 20 types of other fine chemical products for broad market uses. We also engage products trading during the Track Record Period, which complement our self-produced products sales and enhanced customers cohesiveness. Our products are widely recognized around the world. We are the contract supplier of many renowned global companies, including a number of Fortune 500 companies, and regional industry participants. We have established long-term business relationships with these companies, which enable our customers to procure products at competitive prices while providing us with a solid customer base. Sales to our Fortune 500 customers contributed approximately 7.6%, 8.5% and 10.5% of our total revenue in 2021, 2022 and 2023.

Our manufacturing capabilities enable us to execute our strategies for product development and implement production plans to maintain our leading position. During the Track Record Period, we operated two production facilities located in Wuhan (the "**Wuhan Production Plant**") and Qianjiang (the "**Qianjiang Xinyihong Production Plant**"), Hubei Province with a total site area of approximately 326,618.9 sq.m. Our production facilities are operated through our wholly-owned subsidiaries and equipped with advanced technologies and machineries. 79.4%, 86.8% and 83.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively, were generated from our sales of self-produced products. The designed annual production capacity of our Wuhan Production Plant and Qianjiang Xinyihong Production Plant in 2023 were approximately 302,500 tons and 144,040 tons, respectively.

According to the Frost & Sullivan Report, the global sales volumes of benzoic acid, sodium benzoate and benzyl alcohol are expected to reach approximately 357,300 tons, 238,000 tons and 238,700 tons in 2028, respectively. In anticipation of industry trends and our business growth in the larger organic synthetic chemical products industry, and to better serve our customers in the PRC and abroad, we have undertaken efforts to expand our current production capacity. Our Wuhan Production Plant completed its expansion and started trial production in the expanded facilities in January 2022, which is mainly designed for the production of melt-crystallized benzoic acid, a downstream product of benzoic acid obtained through melt-crystallization process. In 2021, we established a wholly-owned subsidiary Hubei Xinxuanhong, for the establishment, construction and eventual operation of a manufacturing facility (the "**Hubei Xinxuanhong Production Plant**") designed to produce toluene chlorination derivative products and other fine chemical products. The construction of Hubei Xinxuanhong Production Plant commenced in July 2023 and its Phase I and Phase II production are expected to begin in the second half of 2024 and the second half of 2026, respectively.

In addition to strengthening our in-house capabilities, we also aim to supplement our business developments by forming in-depth cooperation with prominent industry leaders in China and overseas. On December 18, 2018, we entered into a cooperation agreement to establish a joint venture, Hebei Kangshi with China Petroleum & Chemical Corporation (中國石油化工股份有限公司, "**SINOPEC**"), one of the largest publicly listed, integrated energy and chemical companies in China, in Shijiazhuang, Hebei Province. We obtained the Working Permit on Construction Works (建築工程施工許可證) for this production plant (the "**Hebei Kangshi Production Plant**") on September 29, 2020. Production of the Hebei Kangshi Production Plant commenced in January 2023. The Hebei Kangshi Production Plant is designed to focus on the production of toluene oxidation derivative products with a designed annual production capacity of approximately 60,000 tons of industrial-grade benzoic acid and 15,000 tons of sodium benzoate.

In addition to expanding our domestic production capacity, we also plan to establish our production capability overseas. On March 25, 2019, we entered into a memorandum of understanding with a publicly listed company in Thailand (the "**Company Y**") to construct a production plant facility in Thailand (the "**Thailand Production Plant**"). As of the Latest Practicable Date, the plan remained in the preliminary stage, and no definitive agreement has been entered into between Company Y and us. The Thailand Production Plant is designed to focus on the production of industrial-grade benzoic acid, melt-crystallized benzoic acid and sodium benzoate, with a designed annual capacity of approximately 60,000 tons, 30,000 tons and 15,000 tons, respectively. The development of the Thailand Production Plant, being our first overseas production plant, is part of our global market strategy to achieve economy of scale and expand our presence in the international markets with high growth potential.

While our existing products enjoy broad market appeal and use, we strive to maintain our competitive advantages by allocating additional resources to product development to ensure a growing portfolio of products to our customers. Our manufacturing capability is undergird by our industry leading research and development team driven to develop more advanced and cost-efficient products. As of the Latest Practicable Date, we had an in-house research and development team of 139 employees, including 24 research and development experts. Research and development experts are assigned into three focus areas: technical research, technical center, and multi-facet cooperative research institutes, which provide technical support and new product suggestions. Beyond our internal research and development team, we also collaborate with top scientific research experts of the industry through our multi-facet cooperative research institutes to supplement our technical know-how, improve product quality and advance our processing technology. We believe these collaborations allow us to keep abreast of the latest market development and trends in the end markets in which our customers operates. As of the Latest Practicable Date, we had obtained 34 patents for inventions and 46 patents for utility models as well as 10 pending patent applications.

We have gained a strong reputation and recognition in the industry as a result of our quality products and long-term commitment to the toluene derivative market. In recognition of our achievements and industry expertise, we received government subsidies and were awarded six provincial and 12 municipal certificates of scientific and technological achievements during the Track Record Period. In addition, we were invited by the National Health and Family Planning Commission of the PRC (國家衛生和計劃生育委員會) as a drafter for two national standards, the GB1886.183 for Food Additive Benzoic Acid and GB1886.184 for Food Additive Sodium Benzoate effected on January 1, 2017, and one industrial standard, the HG/T 2027-2017 for Industrial Benzyl Chloride effected on April 1, 2018. We ranked among the Top 10 National Light Industrial Enterprises since June 2015. Our proprietary trademark "XINKANG (新康牌)" has been consistently recognized as a Hubei Provincial Famous Trademark and a Wuhan Famous Trademark, and has become a Well-Known Trademark in China since March 2016. Our sodium benzoate products have entered the Europe and North America markets. We are also the contract supplier of several world's top-tier food and beverage companies and daily consumer goods companies, and have established in-depth business relationships with some of the top chemical companies.

Our products are sold by direct sales, distribution sales and products trading. The extensive coverage of our well-rounded distribution network in the PRC and global market enables us to reach a broader customer base. As of the Latest Practicable Date, we had an in-house sales team comprising 29 employees and had adopted various measures to conduct sales, including direct sales to the end users such as manufacturers, and sales to domestic and overseas distributors who resell our products to their customers. We also conduct products trading to purchase petroleum toluene and other products and resell them to our customers. For the years ended December 31, 2021, 2022 and 2023, revenue generated from direct sales of our products were RMB1,224.5 million, RMB1,624.7 million and RMB1,226.5 million, respectively, representing approximately 43.9%, 51.8% and 45.8% of our total revenue for the same periods, respectively; revenue generated from distributorship sales of our products were RMB989.1 million, RMB1,096.8 million and RMB994.6 million, representing approximately 35.5%, 35.0% and 37.2% of our total revenue for the same periods. For the same periods, revenue generated from products trading were RMB575.9 million, RMB412.3 million and RMB456.0 million, respectively, representing approximately 20.6%, 13.2% and 17.0% of our total revenue for the same periods. As part of our post-sales services, our sales team is responsible for the collection and monitoring of product feedbacks, sales transaction, sales prices, marketing activities and distributorship conducts.

Leveraging our industry position and solid customer base, we are able to secure a steady and reliable supply of raw materials. We have maintained persistent cooperation with our suppliers for an average term of five years during the Track Record Period. Our cooperation with our five largest suppliers during the Track Record Period started as early as 1999 for an average terms of more than five years, and we have long-term procurement agreement in place with our top suppliers. Since 2012, we have been listed as the "AAA" customers of SINOPEC Chemical Commercial Holding Company Limited Huazhong Branch (中國石化化工銷售有限

公司華中分公司, the “**SINOPEC Huazhong**”), a branch of a wholly-owned subsidiary of SINOPEC, which represents our long-standing cooperative relationship with the largest raw material supplier in our industry, which affords us the ability to execute large-scale procurement. We seek multi-dimensional and all-round cooperation with our suppliers, and believe that such cooperation promotes the sound operation of our business and maximizes our business efficiency.

We are led by our chairman of the Board, Mr. Zou Xiaohong. Mr. Zou joined our Group in 1981 and has over 40 years of experience in the toluene derivative products industry. Mr. Zou is supported by our team of experts in business operation, research and development, manufacturing and marketing in our industry. We believe that our management team is capable of meeting the challenges of the competitive industry in which we operate, and lead our future development and growth. Under the leadership of our experienced management team, we will continue to leverage our product development and innovation, manufacturing capabilities and global sales network to increase our market shares and strengthen our industry leading position in China and globally. Following the implementation of our future plans and completion of the Global Offering, our Directors believe that we will continue to maintain our market position and successfully expand our business operation in the toluene derivative products industry both in the PRC and the global market. We believe that we are well-positioned to explore opportunities in the larger organic synthetic chemical market with our competitive strengths, existing capabilities and strategic planning.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths have allowed us to establish our market position and contributed to our success.

We are a market leading and top-ranked manufacturer for the production of toluene oxidation and toluene chlorination products for a variety of use in domestic and industrial applications

We are a leading provider of toluene oxidation and toluene chlorination products in the PRC and the global market, and have operated in the toluene derivative products industry since our inception. The sales volume of our top three products, benzoic acid, sodium benzoate and benzyl alcohol reached approximately 106,487 tons, 45,245 tons and 36,436 tons in 2023, respectively. According to the Frost & Sullivan Report, we are the largest manufacturer for both benzoic acid and sodium benzoate and the second largest benzyl alcohol manufacturer in the PRC in terms of sales revenue in 2023, representing 62.0%, 37.9% and 33.9% of the PRC total market revenue, respectively. In the global market, we ranked second among manufacturers for benzoic acid and sodium benzoate and third place among manufacturers for benzyl alcohol in 2023, accounting for 37.0%, 22.4% and 20.6% of the global total market revenue, respectively.

Our company is a state-recognized, large-sized class-two chemical enterprise that integrates scientific research, industrial production and trade of organic fine chemical products. Our product portfolio primarily comprises toluene oxidation products, toluene chlorination products and benzoic acid ammonification products. Toluene derivative products are commonly used in food preservatives, household chemicals, animal feed acidifier, and synthetic intermediates for agrochemical and pharmaceutical uses. The broad application of our diversified product portfolio to these four industries is able to sustain our results of operations and long-term development.

We have focused mainly on the toluene derivative products industry for over 70 years and are one of the most long-standing toluene derivative products manufacturers in China. To satisfy the needs of our customers and to take advantage of additional market opportunities, we manufactured a variety of products primarily comprised of toluene oxidation and chlorination products and benzoic acid ammonification products. These efforts and actions aim to expand our business in the superordinate category of organic synthetic chemical industry by leveraging our existing success in the toluene derivative products industry. With our top-ranked market position and advanced technologies, we provide diversified and quality products and services to our global customers across more than 70 countries.

In recognition of our achievements in the industry, we were invited by the National Health and Family Planning Commission of the PRC (國家衛生和計劃生育委員會) as one of the drafting participants of the state standard of food additives of benzoic acid and sodium benzoate, which went into effect on January 1, 2017. Our Company ranked among the Top 10 National Light Industrial Enterprises since June 2015. Our proprietary trademark "XINKANG (新康牌)" has been consistently recognized as a Hubei Provincial Famous Trademark and a Wuhan Famous Trademark, and has become a Well-Known Trademark in China since March 2016. As a result of our achievements and devoted focus to occupy meaningful market shares in our industry, we envisage ourselves to continue our business growth and maintain our leading position in the industry.

Our brand and reputation are propelled by our rich and diverse portfolio of products strategically designed for our four primary industries

We maintain a diverse product portfolio devoted to the four major industry segments of food preservatives, household chemicals, animal feed acidifier, and synthetic intermediates for agrochemical and pharmaceutical use. Our products portfolio includes toluene oxidation products, toluene chlorination products, benzoic acid ammonification products and other fine chemical products. Our product portfolio primarily contains five types of toluene oxidation products, two types of toluene chlorination products, two types of benzoic acid ammonification products and more than 20 types of other fine chemical products. We also engage in products trading during the Track Record Period, which complements our self-produced products sales and enhances customers cohesiveness for our business operation by providing customers with various trading products manufactured by other suppliers. Our broad composition of products satisfies the demand of various industries, including our four primary targeted industries.

Our diversified product portfolio enables us to better withstand market and industry fluctuations and risks, and allows us to maintain a robust financial condition with stable revenue generation and persistent cash flow. For the years ended December 31, 2021, 2022 and 2023, we recorded revenue of RMB2,789.5 million, RMB3,133.8 million and RMB2,677.1 million, respectively. As a result, we recorded net profit of RMB309.1 million, RMB340.5 million and RMB72.9 million for the same periods, and period-end cash and cash equivalents of RMB69.5 million, RMB83.5 million and RMB65.4 million as of December 31, 2021, 2022 and 2023.

Moreover, we believe that our diversified product portfolio creates a stable relationship among the upstream and downstream supply chain for our business operation. We maintain long-term business relationship with many of the world's top enterprises in industries such as the food and beverage, consumer goods and household chemical industries. The diversity of our client base signifies that we are not overly depended on a single purchaser or industry, which maximizes our ability to withstand industry-specific fluctuations.

Leveraging our diversified product portfolio, we are able to maintain our market presence in various market segments, many of which are closely related to the basic needs for daily life such as food preservatives and household chemicals.

Our cost-efficient manufacturing process and refined manufacturing equipment are driven by our advanced research and development capabilities

We strive to increase our market share by improving our products and product formulas, and developing new products and product formulas to align with and lead industry trends and satisfy the demand of our customers. Our product research and development team is responsible for optimizing the production process, developing new products with high added value, expanding the application and efficient use of by-products.

We established a competitive internal research and development team of 139 employees as of the Latest Practicable Date, which included a research and development expert team of 24 members. Our key research and development team members have extensive experience in the toluene derivative products industry and have developed a long-term relationship with us for over ten years on average. For the years ended December 31, 2021, 2022 and 2023, our research and development costs amounted to RMB110.8 million, RMB133.0 million and RMB100.0 million, respectively, which primarily include staff costs and article of consumption.

We independently developed several advanced technologies to refine our production process and obtained series of invention patents during the Track Record Period, including patents for our loop oxidation reactor and new types of toluene oxidation catalyst. As of the Latest Practicable Date, we had three trademarks and 80 patents in the PRC, including 34 patents for invention. We also had 10 pending patent application in the PRC. During the Track Record Period, we had initiated 16 research and development projects. Leveraging our proprietary patents and technology know-how, we are able to recycle the production by-products from the upstream process and improve the reaction yields, which significantly reduce the manufacturing wastes and residuals and further enhance the cost-efficiency and variety of our products. The extended manufacturing line may enable us to produce products with relatively higher gross profit margin. For example, we commenced production of benzyl acetate during the Track Record Period, which is the downstream product of benzonitrile and achieved a higher gross profit margin.

Our product research and development team works closely with our manufacturing team to optimize our manufacturing processes in order to enhance product quality, improve processing technologies and maximize production efficiency. Our product research and development team also works closely with our quality control team and sales teams to improve our existing products portfolio, develop new products and refine the production process based on the feedbacks from our customers and our market research.

In addition to our efforts on research and development to refine our manufacturing process and products portfolio, we are also committed to reduce environmental pollution and carbon dioxide emissions through process optimization. We launched a new project for waste water treatment in 2020 and enhanced the processing capacity of our facilities, which copes with our production capacity expansion in 2021. We also adopted a series of environmental protection measures to recycle exhaust gas and solid wastes, including the adoption of low nitrogen renovation for our heat conduction furnace and the sludge desiccation system. We conserve energy through our consistent efforts on advancing our production process. For example, in 2022, the energy consumption costs per RMB10,000 value of our products manufactured by our Wuhan Production Plant and Qianjiang Xinyihong Production Plant reduced by 10.6% and 59.3%, respectively as compared with those in 2021. In 2017, we were awarded the National Labor Medal (全國五一勞動獎章) for significantly reducing our carbon dioxide emissions.

By virtue of the cost-efficient manufacturing process and refined manufacturing equipment benefited from our strong product research and development capability, we are able to maintain superior product quality and control production costs of our products effectively. Furthermore, we continue to develop chemical by-products and chemical derivatives with high added value, and optimize the product structure to increase our gross margins.

Our leading market position is elevated by our extensive distribution network for our products

We have established a comprehensive distribution network in both the PRC and the international market. For the years ended December 31, 2021, 2022 and 2023, 43.9%, 51.8% and 45.8% of our products measured in terms of revenue were sold through direct sales, respectively, which were directly sold by us to end users such as chemical companies, food producing and processing companies, pharmaceutical companies and animal feed producing companies that use our products as raw materials; 35.5%, 35.0% and 37.2% of our products were sold through distributorships for the corresponding periods, which were sold to distributors that we believe will resell these products to their customers and their sub-distributors; 20.6%, 13.2% and 17.0% of our products were sold through products trading for the corresponding periods, which were petroleum toluene and other products we purchased from suppliers and resold to our customers.

We sell our products under our proprietary trademark "XINKANG (新康牌)" and have established our brand value and recognition through the improvement of our product quality, the enrichment of our product portfolio and the broadening of our sales scope. During the Track Record Period, most of our revenues were generated from the PRC market. For the years ended December 31, 2021, 2022 and 2023, we generated revenue of RMB2,171.1 million, RMB2,452.0 million and RMB2,060.0 million, representing 77.8%, 78.2% and 76.9% of our total revenue, respectively, from our customers in the mainland China. As of December 31, 2023, our distribution network comprised 435 distributors across mainland China.

We commenced our direct overseas business in 1996. During the Track Record Period, Asia (excluding mainland China) is the largest overseas market of our Group. For the years ended December 31, 2021, 2022 and 2023, we exported approximately 5,364 tons, 5,543 tons and 5,779 tons of benzoic acid products to other Asian countries and regions, respectively. Generally, the local companies we cooperated with are well recognized in the local market and have already developed its customer base and local business relationships. Through cooperations with these companies, we are able to reach the local customers and maintain customer relationship in a cost-efficient manner.

Our overseas distribution network enables us to enhance our brand visibility and expand brand influence, which in turn afford us the ability to maintain our leading position in the international market. During the Track Record Period, we established business relationships with distributors across more than 70 countries. As of December 31, 2023, we had established an overseas distribution network comprising 251 distributors.

Our continuing and sustainable commercial success are based on our strong and cohesive customer base

We maintain a strong and cohesive customer base from a wide range of industries. In particular, we target customers with strong financial conditions and corporate reputations, positive corporate images and favorable competitive advantages in their respective markets. Based on our market experience, quality customers in general have good credit records and usually place sizable orders. We believe that by establishing business relationships with quality customers, we are able to mitigate credit risks and obtain stable order flows as well as enhance the goodwill of our Company, which would in turn create further opportunities with other reputable customers.

In addition to our long-term sales relationship with our customers, we also established strategic cooperation with our business partners to form comprehensive collaborative relationships. We entered into a long-term strategic cooperation framework agreement with a world leading nutritional products company incorporated in Switzerland (the "**Customer B**"), for the purchase and distribution of feed-grade benzoic acid in 2010, and have been continuing this cooperation thereafter. The strategic cooperation framework agreement, as supplemented in November 2018 through a supplemental agreement, was amended and reinstated in its entirety in August 2023.

The principal terms of the currently effective strategic cooperation framework agreement we entered into with Customer B are summarized as follows:

Contractual period: October 1, 2022 to September 30, 2027.

Exclusivity: Customer B will purchase feed-grade benzoic acid exclusively from us for its use in mainland China, and we will exclusively sell feed-grade benzoic acid to Customer B under its product code and product name in mainland China and in the global market, except for a reserved customer of us.

Exclusive distribution right: Customer B will serve as the exclusive distributor for the feed-grade benzoic acid we supply to them, both within and outside of mainland China.

To retain its right as exclusive distributor, Customer B has to purchase a certain amount of feed-grade benzoic acid from us annually, and in the event Customer B fails to meet the annual target by the end of each contract year, we may terminate the exclusive distribution right granted to Customer B in the subsequent contract year, unless Customer B takes certain remedial measures in a timely manner.

Purchase price:	The purchase price will primarily be determined based on the market price, with certain other factors taking into account such as foreign exchange rate and freight costs.
Termination:	Each party has the right to terminate the agreement effective immediately upon written notice under certain circumstances such as the other party's material breach of contract, insolvency or bankruptcy, material violation of environmental laws and regulations, or the failure to register the products in the PRC by us.

We are a key supplier of feed-grade benzoic acid for Customer B, and revenue generated from our business with Customer B (together with its group companies) amounted to RMB142.9 million, RMB197.4 million and RMB214.8 million for the years ended December 31, 2021, 2022 and 2023. Our comprehensive collaboration with Customer B was the result of a long-term, mutually beneficial relationship established in the course our business interactions. Our collaboration with Customer B not only accelerates our development and manufacturing capacity expansion but also ensures a steady demand for our products in the long-run. Our strategic partners will continue to play an important role in our future business.

During the Track Record Period, we have conducted business with more than 2,700 corporate customers, covering more than 70 countries. We established and solidified our business relationship with a variety of prestigious companies, including a number of Fortune 500 Companies. For the years ended December 31, 2021, 2022 and 2023, revenues generated from our five largest customers amounted to RMB731.5 million, RMB583.2 million and RMB581.2 million, representing 26.3%, 18.6% and 21.8%, respectively, of our total revenue for the same periods. All of our five largest customers during the Track Record Period have maintained sound business relationship with our Group, and as at the Latest Practicable Date, and a significant portion of our customers had maintained business relationship with our Group for more than three years.

Our strong and cohesive customer base also enables us to maintain a healthy cash flow position. For the years ended December 31, 2021, 2022 and 2023, the average trade and bills receivables turnover days of our Group were 24 days, 33 days and 42 days, respectively.

Our experienced management team with proven track records provides exemplary leadership to guide our growth

We believe the vision and experience of our senior management and their dedication to our Group contributed to our successes as well as our continued growth and profitability.

Our executive Directors and members of our senior management and key operating personnel possess extensive operating and industry experience in our industry. Many of them have been working in the related industry for over 25 years. Our senior management and operating team have in-depth industry knowledge, which enables us to respond promptly to the latest market trends and changing needs and requirements of our customers. For details, please refer to "Directors and Senior Management" in this prospectus. Our senior management team strives to exert consistent effort to cultivate a corporate culture that emphasizes on quality and safety, and position ourselves as a provider of quality products. In addition, our senior management team has developed a long-term relationship with us for over ten years on average. During the Track Record Period, our annual key management team turnover rate remained below 5%.

Our dedicated management team spearheads our business operations and drives our future growth plans. Their experience and industrial knowledge enable us to develop new products and product formulas to further identify and realize new business opportunities. Our management team plays an important role in establishing a corporate culture which focuses on consistent delivery of high quality products and continuous innovations. We believe that our experienced management team has been the key to our success in the past and will continue to contribute to our growth in the future.

OUR STRATEGIES

We aim to achieve sustainable growth in our production capacity and enhance our market position by implementing the following strategies.

Continue to expand our production capacity to sustain our long-term economy of scale and profitability

We plan to capture a greater market share in the toluene derivative products market both in the PRC and globally. According to the Frost & Sullivan Report, the global sales volume of benzoic acid, sodium benzoate and benzyl alcohol increased from approximately 246,700 tons, 174,600 tons and 149,300 tons in 2018 to 265,100 tons, 191,700 tons and 175,500 tons in 2023, representing a CAGR of 1.4%, 1.9% and 3.3%, respectively. In addition, the sales volume in the global market of benzoic acid, sodium benzoate and benzyl alcohol is expected to continue its growth trend in the near future and reach approximately 357,300 tons, 238,000 tons and 238,700 tons in 2028, representing a CAGR of 5.7%, 3.8% and 5.5% respectively. We plan to increase our production capacity to meet the increasing demand for our products and to sustain our long-term economy of scale and profitability.

During the Track Record Period, we operated two production facilities, the Wuhan Production Plant and the Qianjiang Xinyihong Production Plant. For the years ended December 31, 2021, 2022 and 2023, the designed annual production capacity for our Wuhan Production Plant and Qianjiang Xinyihong Production Plant were approximately 302,500 tons and 144,040 tons each year, respectively. Utilization rates for these two production plants were 102.4%, 122.8% and 104.0%, and 91.8%, 91.7% and 86.4% for the corresponding periods, respectively.

In January 2021, we established a wholly-owned subsidiary, Hubei Xinxuanhong, to expand our production capacity of toluene chlorination products with a total designed annual production capacity of approximately 300,000 tons, featuring benzyl chloride and new products such as benzoyl chloride (the "**Hubei Xinxuanhong Production Plant**"). We commenced the construction in July 2023 and expect to initiate its Phase I and Phase II production of the Hubei Xinxuanhong Production Plant in the second half of 2024 and the second half of 2026, respectively.

As of December 31, 2023, we had incurred capital expenditures of RMB55.1 million for the expansion plan of Hubei Xinxuanhong Production Plant. We plan to fund the expansion of Hubei Xinxuanhong Production Plant with proceeds from the Global Offering and our internal resources. For details about our production expansion plan and use of proceeds from the Global Offering, please refer to "— Production Expansion Plan" and "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus.

Timely respond to changes in market circumstances by adjusting sales and pricing strategies

Chemical industry is affected by various factors such as overall economic environment, prices of petroleum, inflation, and changes in downstream demand. Timely response to changes in market circumstances is crucial in effectively compete in the market and to maintain our leading position.

For example, in light of the unfavourable market sentiment in 2023, we reacted swiftly and adopted a strategy to sell our products at a lower prices so as to maintain our market position and the utilization rate of our production facilities at an optimal level while at the same time, maintain or even increase our market shares. With our competitive advantages as a leading player in the market, we view it as an opportunity to further strengthen our market position as we are able to effectively compete in the market in such circumstances.

According to Frost and Sullivan, our Group remained as the largest manufacturer for both benzoic acid and sodium benzoate in the PRC in terms of the sales revenue in 2023 with our market share increased from 59.1% and 37.3% in 2022 to 62.0% and 37.9% in 2023. We will continue to respond swiftly to changes in market circumstances so as to maintain and potentially strengthen our leading market position.

Further increase our domestic and international market shares by forming in-depth cooperations with established market participants

We intend to further increase our market shares domestically and in the international markets by developing strategic cooperations with prominent industry participants and upstream petroleum enterprises. We entered into a memorandum of understanding with a publicly-listed petroleum company in Thailand (the "**Company Y**") on March 25, 2019, which was extended in October 2022 and March 2024 and will remain effective until March 2027, to establish a joint venture for the purpose of building and operating a manufacturing plant based in Rayong, Thailand (the "**Thailand Production Plant**"). As of the Latest Practicable Date, the plan remained in the preliminary stage, and no definitive agreement has been entered into between Company Y and us. The decision to proceed with the construction of the Thailand Production Plant will be contingent upon the timing of the future improvement of the chemical industry environment and consensus is reached with Company Y, and we will take into account the industry environment at the relevant time in considering the timing of the construction of the Thailand Production Plant. The Thailand Production Plant is designed primarily for the manufacturing of industrial-grade benzoic acid, melt-crystallized benzoic acid and sodium benzoate. We intend to leverage our industry experience and Company Y's strong regional presence to further expand our business activities in South and Southeast Asia. This joint venture opportunity signifies our worldwide footprint with remarkable production capabilities overseas. We will utilize this benchmark project to explore and evaluate the commercial benefits of developing production capabilities overseas, and may expand this strategy to other key markets and regions in the future.

Domestically, we focus on developing in-depth business relationships with upstream enterprises to continue to expand our production capabilities and ensure a steady supply of raw materials. We entered into a cooperation agreement on December 18, 2018 with SINOPEC, one of the largest publicly listed integrated energy and chemical companies in China, to establish a joint venture, Hebei Kangshi, in Shijiazhuang, Hebei Province. We hold 51% of interests in Hebei Kangshi. The manufacturing facility of Hebei Kangshi (the "**Hebei Kangshi Production Plant**") is primarily designed for the manufacturing of benzoic acid and its derivatives. The construction of the Hebei Kangshi Production Plant was completed, and production commenced in January 2023.

In addition, we entered into an annual cooperation agreement on December 19, 2022 with SINOPEC Jianghan Salt Chemical Hubei Co., Ltd. (中石化江漢鹽化工湖北有限公司, the "**Jianghan Salt Chemical**"), a wholly-owned subsidiary of SINOPEC. Since 2020, we have periodically entered into cooperation agreements with Jianghan Salt Chemical for fixed terms ranging from one to two years, with the material terms remaining unchanged, and we intend to continue our cooperation with them. Pursuant to the agreement, Jianghan Salt Chemical is obligated to supply us with liquid caustic soda, which is one of our primary raw material for the production of sodium benzoate. Jianghan Salt Chemical provides us with a discount on the purchase price compared to what it charges other customers. The principal terms of the cooperation agreement we entered into with Jianghan Salt Chemical are summarized as follows:

Contractual period:	January 1, 2023 to December 31, 2023.
Purchase price:	The purchase price set by Jianghan Salt Chemical is subject to monthly fluctuations, taking into account of various factors such as the prices of raw materials.
Purchase amount:	We submit the demand plan for the upcoming month to Jianghan Salt Chemical by the 25th of each month. The supply quantity for the subsequent month will be determined through negotiations between Jianghan Salt Chemical and us.
Termination:	Termination upon mutual consent in writing. Additionally, each party has the right to terminate the agreement if the other party, due to its fault, renders the agreement unable to be fulfilled.

Leveraging our technology advantages and access to upstream petroleum enterprises, we intend to explore more cooperation opportunities with qualified companies.

Further enhance our research and development capabilities to develop high value products

Our research and development team is responsible for increasing our production efficiency and effectiveness, and improving the quality of our existing products and services. Our products enjoy broad commercial appeal due to their quality and competitive prices. Both of these competitive advantages are the result of our industry know-how and strong research and development team. We are committed to develop new technologies and to provide a broader and more diversified range of products to persistently adapt to the ever-changing market demands of customers across various industries. We believe our research and development capabilities afford us the ability to increase our revenue streams, and help us expand our market shares in both the PRC and global market.

For the years ended December 31, 2021, 2022 and 2023, our expenditures on research and development amounted to approximately RMB110.8 million, RMB133.0 million and RMB100.0 million, respectively. As of the Latest Practicable Date, our own research and development team had registered two trademarks under our "XINKANG (新康牌)" brand, 80 patents, including 34 patents for invention. In addition, we also had 10 pending patent applications in the PRC. We are committed to allocate resources to continue to enhance our research and development capabilities to ensure we are at the forefront of the industry in terms of producing products with broad consumer use at a cost-efficient manner.

Expand our sales and marketing network in the global market

We are also committed to expand the distribution of our products to new markets with high market potential by expanding our sales and marketing network. We currently maintain significant business activities and sales in Asia, Europe and the Americas, and plan to increase our sales in in North America, Southeast Asia and India. According to the Frost & Sullivan Report, the total consumption volume of benzoic acid in North America had increased from approximately 59,700 tons in 2018 to 63,100 tons in 2023, and this growth trend is expected to continue at a CAGR of 4.9% from 2024 to 2028. Given the enormous market potential and growth, we plan to devote resources to further enhance our presence in the North America.

According to the Frost & Sullivan Report, the total consumption volume of benzoic acid in India had increased from 30,800 tons in 2018 to 35,700 tons in 2023, and it is estimated that it will continue to grow in the near future at a CAGR of 7.3% from 2024 to 2028. For the years ended December 31, 2021, 2022 and 2023, sales volume of our products to India, mainly include sodium benzoate, benzoic acid and benzaldehyde, were approximately 2,779 tons, 1,985 tons and 3,138 tons, respectively, with revenues amounted to RMB27.9 million, RMB23.3 million and RMB32.3 million, respectively. In addition to India, other countries in South Asia and Southeast Asia are emerging as markets with high growth potential. Therefore, we plan to leverage our current capabilities and strengthen our presence in South and Southeast Asia, and India in particular, by expanding our sales and marketing network.

IMPACT OF THE COVID-19 PANDEMIC DURING THE TRACK RECORD PERIOD

The COVID-19 outbreak was first reported in December 2019 and quickly developed into a global pandemic. This pandemic had significant and sustaining effects on the global economy and business environment.

Despite the general impact on the global market and the macro-economy, our production was not suspended due to the COVID-19 pandemic as our Company was recognized as a Supply Guarantee Key Enterprise (重點保障企業) by the Department of Economy and Information Technology of Hubei Province (湖北省經濟和信息化廳). Our products are widely used as preservatives and intermediates in daily domestic products such as food, pesticide and medicine, and we were permitted to maintain our production operations. As a Supply Guarantee Key Enterprise, we did not experience manufacturing interruptions under the implementation of the strict prevention and control policy of Hubei Province during the height of the COVID-19 pandemic.

During the Track Record Period, our business operations were exposed to certain transportation interruptions due to the COVID-19 pandemic and other reasons from time to time. However, we responded rapidly and proactively sought alternatives to carry out our daily business, and elevated our reliability when our competitors were not able to ensure continuity of production and certainty of delivery. We managed to source our raw material and sold our products through various transportation methods. For example, we actively utilized railway transportation when maritime transportation was inaccessible in the market and resorted to inland waterway transportation on the Yangtze River and truck transportation to ensure our access to transportation. Our international sales and export shippings were not materially affected by the COVID-19 pandemic due to the consistent operations of the PRC ports and the availability of oceanic shipping in China to other regions. Moreover, due to the circumstance of the pandemic at each particular country and region, many international manufacturers experienced significant interruption due to its business stoppage and global logistics congestion caused by the COVID-19 pandemic. In contrast, our strong and continuing production capacity provided a stable supply and attracted more customers. Therefore, the COVID-19 pandemic had relatively limited impact to the Group in 2021 and 2022.

Furthermore, there was a severe COVID-19 outbreaks in late 2022 when most of the travel restrictions and quarantine requirements were lifted in December 2022. There were significant surges of COVID-19 cases in many cities in China subsequently. The rapid spread of COVID-19 in a relatively short period of time has resulted in distortion in the Group's trading activities with our customers. Certain of our production facilities were temporarily operated with limited capacity in early 2023 amid the COVID-19 pandemic. Despite the gradual reduction in COVID-19 cases subsequently, the recovery of economy was much slower than expected given the significant economic uncertainties globally and in the PRC. The widespread infections also interrupted the business operations of our downstream customers for extended periods. While our customers in the food additives and pharmaceutical intermediate industry are less sensitive to market factors and other customers in the pesticide intermediate industries benefited from favourable government policies, the adverse impact of COVID-19 on the global economy and consumer sentiment caused prolonged interruptions to the operations of the downstream customers, leading to their reduced demand in chemicals. In addition, as these industries' demands for toluene derivative products decreased, the increased availability in market supply of toluene oxidation products further intensified the market competition. These circumstances exert significant pressure on our pricing and therefore leading to significant decline in our profitability in 2023.

MARKET DEVELOPMENTS IN 2023

The chemical industry, in particular toluene oxidation and chlorination products industry, experienced a challenging year in 2023 as impacted by the uncertainty surrounding the economic environment globally as well as in the PRC and the geopolitical tension, which in turn has a widespread negative impact on the customers' spending in various downstream industries. Although our downstream customers mainly related to daily necessities such as food and beverages and pharmaceutical which have relatively stable demands, they could delay their purchases and reduce their inventory level in light of the uncertain economic environment, which in turn adversely affects their demand on chemical products. In addition, as petroleum price remained at relatively low level throughout 2023, which resulted in the decrease in raw material price of the Group's products, the Group lowered the average selling price of its products in response to the then market circumstances. According to the General Administration of Customs of the PRC, export value of basic organic chemicals industry in the

PRC has dropped from approximately RMB515.1 billion in 2022 to RMB403.6 billion in 2023, decreasing at a rate of 21.5%. According to the National Bureau of Statistics, the Purchasing Manager's Index (PMI) was consistently below 50 throughout majority of 2023 while the Producer Price Index (PPI) in the PRC dropped from 9.1% in January 2022 to a negative level since October 2022 and throughout 2023, which represent a contraction in the upstream industries. At the same time, Consumer Price Index (CPI) in the PRC also dropped to a level close to zero in 2023 indicating an overall weak consumer sentiment in 2023. According to the World Bank, global economy shown a decelerating trend with the global GDP growth fell from 3.0% in 2022 to 2.6% in 2023.

In light of the unfavorable economic environment and the reduced consumer demand, as a prudence measure to maintain greater liquidity and flexibility at the time of uncertainties, many downstream industry customers tend to lower their inventory level or slow down their inventory replenishment, resulting in sluggish demand for fine chemicals. This was completely opposite to the market circumstances in 2022 when the chemical industry was at a boom and the downstream industrial customers were stocking up as they foresee there could be an increase in selling prices of chemicals, including the price of toluene oxidation and chlorination products. These circumstances also coincided with the expansion in capacity of some of the market players in toluene oxidation products which were put into operation since late 2022 which further increases the market supply of toluene oxidation products. The increase in market supply of toluene oxidation products further intensified the market competition amid time of weak demands, which has an immediate adverse impact on the market participants as it takes time to digest the increased production capacity. All of which further exerted significant downward pressure on product pricing. This circumstance was a reversal of the marketing condition in 2022 when demand was much higher than the supply, which positioned chemical manufacturers in an ideal market position.

To cope with the challenging market environment, chemical manufacturers, including our Group, have been lowering product selling prices so as to effectively compete in the market, and to maintain the utilization rates of their production facilities. Together with the decrease in sales volume with the contraction in downstream demand, most chemical industry players recorded a drop in revenue in 2023. According to Frost & Sullivan, all of the top five players in the PRC benzoic acid market, sodium benzoate market and the top three players in the PRC benzyl alcohol market recorded a drop in revenue in 2023 as compared to 2022 ranging from 13.8% to 48.3%. As the manufacturing and operating costs are relatively fixed, the reduction in selling prices has a significant impact to the profit margins. According to the statistics published by the National Bureau of Statistics, entities in the PRC chemical materials and manufacturing industry had recorded a drop in revenue in 2023 by 3.5%, whereas net profit of the industry dropped more significantly by 34.1% in 2023 as compared to 2022. Many listed chemical companies also exhibited a similar trend in their revenue and profitability with a drop in net profit by over 70%, a number of which even turned from net profit in 2022 to a net loss in 2023. According to Frost & Sullivan, the significant decrease in profitability for chemical companies in 2023 was an industry norm.

As a renowned toluene derivative products provider in the PRC and the global market, we are unavoidably adversely affected by the downturn in the chemical industry. As a result of the foregoing, we also lowered the selling prices of our products in order to effectively compete with our competitors for the smaller number of available sales orders so as to maintain our market position and the utilization rate of our production facilities at an optimal level and to keep our market share. For example, the average selling price of our toluene oxidation products and toluene chlorination products dropped by 9.7% and 16.2% in 2023 as compared to 2022. At the same time, a relatively lower production plant utilization rate compared to our past performance and the maintenance of our production plant in February 2023 in turn increased the per unit costs of our products.

Our revenue, gross profit and gross profit margin were therefore adversely affected during the period. For the year ended December 31, 2023, our sales volume amounted to approximately 346,147 tons, as compared to 375,848 tons for the year ended December 31, 2022, together with the decrease in selling prices, resulting in a decrease in revenue of 14.6% as compared to the same period in 2022. Our gross profit also decreased by 52.8% as compared to the same period in 2022 and we recorded a lower gross profit margin of 12.3% in 2023. Such decline is largely in-line with the trend observed in the chemical industry including the listed chemical companies. Despite of this circumstance, we have maintained our leading position in the toluene oxidation and toluene chlorination products industry and we remained as the largest manufacturers for benzoic acid and sodium benzoate in the PRC. Our market share in the PRC benzoic acid market and sodium benzoate market increased from 59.1% and 37.3% in 2022 to 62.0% and 37.9% in 2023, respectively.

The market environment has gradually stabilized and improved by the end of 2023 as the above impacts have gradually regressed. According to National Bureau of Statistics, entities in the PRC chemical materials and manufacturing industry recorded a drop in net profit in 2023 as compared to 2022, but the drop had been narrowing throughout the year from -54.9% in March 2023 to -52.2% in June 2023 and -46.5% in September 2023, and further narrowed to -34.1% in December 2023, which indicates that the declining trend had stabilized and gradually improved throughout 2023. Our performance also gradually improved with quarter-to-quarter increase in revenue based on unaudited management accounts by 8.7% and 6.6% in the third quarter and fourth quarter of 2023, respectively.

Our management has been closely monitoring the industry development and changes in market circumstance. The chemical industry exhibited cyclical fluctuations from time to time coinciding with fluctuations in macroeconomic environment and unforeseen events. Having said that, since our inception and during the Track Record Period, we have successfully addressed and mitigated the impacts of the cyclical fluctuations to the extent possible and maintained our leading market position through our business strategy, responsiveness to market changes and diversified quality product portfolio. We have adopted and will continue to adopt various measures to improve our financial performances, including but not limited to (i) refine the production process and strengthen energy management to achieve the purpose of saving energy, reducing consumption, reducing costs and increasing efficiency, and therefore reducing manufacturing costs. For example, we are conducting manufacturing refinement for our benzyl chloride products by upgrading and improving the benzyl chloride reaction and distillation technology to enhance the quality of benzyl chloride and reduce energy consumption. We expect the manufacturing refinement to be completed in 2025 and a projected reduction in energy consumption by up to 10% for such production; (ii) actively explore domestic and overseas markets, develop new customers, increase sales, and further expand market share to maintain bargaining power and profitability. For example, we participated in three domestic trade shows and 10 international trade shows in 2023 as compared to one domestic trade show in 2022; we also commenced sales with over 200 new customers in 2023; (iii) actively maintain and further develop customer relationships to promptly respond to the market need. For example, our sales personnel conducted approximately 30 visits to our clients each month on average in 2023, as compared to a total of approximately 10 visits to our client in 2022; (iv) expedite the launch of new products. For example, we have implemented facilities to produce columnar sodium benzoate, which is expected to commence production in the second half of 2024, with an annual production capacity of approximately 4,000 tons; and (v) maintain and enhance our relationship with raw material suppliers to purchase raw materials at a more favorable price, which may enable us to reduce costs for raw materials and maintain an inventory management system that responds promptly to market fluctuations of raw materials.

EXPECTED MARKET TREND IN 2024

According to Frost & Sullivan, benzoic acid, sodium benzoate, and benzyl alcohol industry in the PRC show a significant recovery trend in 2024. Simultaneously, the recovery of the domestic and international economies which will drive consumption resurgence, downstream industries of benzoic acid, sodium benzoate, and benzyl alcohol are gradually increasing their demand for replenishing stocks. Together with the gradual reflection of the positive impacts from the favorable government policies, the benzoic acid, sodium benzoate, and benzyl alcohol markets are expected to rebound in both sales volume and sales revenue in 2024 with sales revenue in the PRC expected to increase by 16.2%, 18.7% and 21.6%, respectively, in 2024.

According to Frost & Sullivan, there is no newly constructed production capacity of toluene oxidation products by five major domestic manufacturers that is put into operation in 2024. Further, according to Frost & Sullivan, there was structural adjustment in the global and the PRC toluene and toluene derivative products markets which involves a general shift in sales towards leading Chinese manufacturers with the withdrawal of small and medium-sized manufacturers from the industry, along with a decrease in the output and production capacity utilization rate of overseas manufacturers observed in 2023, and such trend is expected to continue in 2024. These help stabilize the market supply and benefits us as a leading top-ranked toluene oxidation and toluene chlorination products provider in the PRC and the global market, allowing us to capture additional market share.

RECENT DEVELOPMENTS

With our continuous efforts to improve our performance and the gradual recovery of the chemical industry globally and also in the PRC, our performance gradually improved. In particular, based on the unaudited management accounts of the Company as of March 31, 2024, our revenue and sales volume for the three months ended March 31, 2024 increased by 15.0% and 6.7%, respectively, as compared to the same period in 2023. The utilization rates of our Wuhan Production Plant and Qianjiang Xinyihong Production Plant also increased in the first quarter of 2024 as compared to that in 2023, indicating an improvement in our performance.

OUR PRODUCTS

Our self-produced toluene derivative products are categorized into the following segments: (i) toluene oxidation products, (ii) toluene chlorination products; (iii) benzoic acid ammonification products, and (iv) other fine chemical products such as benzyl acetate and p-methyl chlorobenzyl. These products are broadly used in food preservatives and oxidation, household chemicals, feed acidifiers and agricultural and pharmaceutical intermediates. As of December 31, 2023, we offered five types of toluene oxidation products, two types of toluene chlorination products, two types of toluene ammonification products and more than 20 types of other fine chemical products of different specifications to our customers. We also engage in products trading during the Track Record Period, which complement our self-produced products sales and enhanced customers cohesiveness for our business operations by providing customers with various trading products manufactured by other suppliers.

Our Business Model

For the years ended December 31, 2021, 2022 and 2023, we derived our revenue from sales of our self-produced products, representing approximately 79.4%, 86.8% and 83.0% of our total revenue for the respective periods. We also generated limited revenue from products trading during the Track Record Period.

The following table sets forth the sales volume, revenue and percentage of total revenue by business segments during the Track Record Period:

	Years ended December 31,								
	2021			2022			2023		
	RMB'000	*% of total revenue*	*Sales volume (tons)*	*RMB'000*	*% of total revenue*	*Sales volume (tons)*	*RMB'000*	*% of total revenue*	*Sales volume (tons)*
Revenue from self-produced products	**2,213,551**	**79.4**	**248,462**	**2,721,500**	**86.8**	**318,818**	**2,221,064**	**83.0**	**279,147**
Toluene oxidation products	*1,311,522*	*47.0*	*161,028*	*1,555,182*	*49.6*	*169,962*	*1,356,387*	*50.7*	*164,071*(1)
– benzoic acid	752,321	27.0	103,224	910,379	29.0	113,050	784,461	29.3	106,487
– sodium benzoate	451,129	16.2	46,994	543,084	17.3	49,361	437,519	16.3	45,245
– others	108,072	3.8	10,810	101,719	3.3	7,551	134,407	5.1	12,339
Toluene chlorination products	*487,513*	*17.5*	*51,217*	*831,305*	*26.5*	*61,988*	*587,599*	*21.9*	*52,299*
– benzyl chloride	124,810	4.5	18,398	189,440	6.0	19,924	124,841	4.7	15,863
– benzyl alcohol	362,703	13.0	32,819	641,865	20.5	42,064	462,758	17.2	36,436
Benzoic acid ammonification products	*237,010*	*8.5*	*7,921*	*130,392*	*4.2*	*4,619*	*116,250*	*4.3*	*6,675*
– benzonitrile	48,319	1.7	3,143	27,180	0.9	1,467	39,538	1.5	2,637
– benzoguanamine	188,691	6.8	4,778	103,212	3.3	3,152	76,712	2.8	4,038
Other fine chemical products	*177,506*	*6.4*	*28,296*	*204,621*	*6.5*	*82,249*	*160,828*	*6.1*	*56,102*
Revenue from products trading	**575,926**	**20.6**	**113,840**	**412,336**	**13.2**	**57,030**	**456,039**	**17.0**	**67,000**
Toluene product trading	*541,042*	*19.4*	*112,272*	*360,815*	*11.6*	*54,823*	*320,085*	*12.0*	*49,295*
Other products trading	*34,884*	*1.2*	*1,568*	*51,521*	*1.6*	*2,207*	*135,954*	*5.0*	*17,705*
Total	**2,789,477**	**100.0**	**362,302**	**3,133,836**	**100.0**	**375,848**	**2,677,103**	**100.0**	**346,147**

Note:

(1) Including sales volume of products processed by Hebei Kangshi under the entrusted processing service arrangement.

The following is a description of our main products:

Toluene oxidation products and derivatives

Our toluene oxidation products mainly include benzoic acid, sodium benzoate and other products such as benzaldehyde and benzyl benzoate.

Benzoic acid

Benzoic acid is a toluene oxidation product mainly used as preservatives and intermediates in food, pesticide, medicine, printing, and dye products. Benzoic acid is produced commercially from toluene by air oxidation, separation and purification. We manufacture benzoic acid at our Wuhan Production Plant. As of the Latest Practicable Date, our aggregate designed annual production capacity of benzoic acid by our current operating manufacturing facilities was approximately 200,000 tons.

Description of benzoic acid

Raw materials	:	toluene, compressed air
Formula	:	$C_7H_6O_2$
CAS number	:	65-85-0
Scope of applications	:	• as a feed additive to replace antibiotics • as a food preservative • as intermediate in food and medicine

Sodium benzoate

Sodium benzoate is the sodium salt of benzoic acid mainly used as a food preservative and pickling agent. Sodium benzoate is produced by reacting sodium hydroxide with benzoic acid. We manufacture sodium benzoate at our Wuhan Production Plant. As of the Latest Practicable Date, our aggregate designed annual production capacity of sodium benzoate by our current operating manufacturing facilities was approximately 65,000 tons.

Description of sodium benzoate

Raw materials	:	benzoic acid, sodium hydroxide
Formula	:	$C_7H_5NaO_2$
CAS number	:	532-32-1
Scope of applications	:	• as a food preservative • as a pickling agent

Toluene chlorination products and derivatives

Our toluene chlorination products mainly include benzyl chloride and benzyl alcohol.

Benzyl chloride

Benzyl chloride is an organic compound mainly used in the manufacture of agricultural and pharmaceutical intermediates. We manufacture benzyl chloride at our Qianjiang Xinyihong Production Plant. As of the Latest Practicable Date, our aggregate designed annual production capacity of benzyl chloride by our current operating manufacturing facilities was approximately 74,000 tons.

Description of benzyl chloride

Raw materials	:	toluene and chlorine
Formula	:	C_7H_7Cl
CAS number	:	100-44-7
Scope of applications	:	• use as a chemical intermediate • used in the synthesis of amphetamine-class drugs • used in preparation of Grignard reagent

Benzyl alcohol

Benzyl alcohol is a colorless liquid with a mild pleasant aromatic odor. It is a useful solvent due to its polarity, low toxicity, and low vapor pressure. We manufacture benzyl alcohol at our Qianjiang Xinyihong Production Plant. As of the Latest Practicable Date, our aggregate designed annual production capacity of benzyl alcohol by our current operating manufacturing facilities was approximately 60,000 tons.

Description of benzyl alcohol

Raw materials	:	sodium carbonate, water and benzyl chloride
Formula	:	C_7H_8O
CAS number	:	100-51-6
Scope of applications	:	• used as a general solvent • used in the soap, perfume, and flavor industries • used as a local anesthetic, especially with epinephrine

Benzoic acid ammonification products and derivatives

Our benzoic acid ammonification products mainly include benzonitrile and benzoguanamine.

Benzonitrile

Benzonitrile is a colorless oily liquid with an almond smell. It is mainly used as an intermediate of high-grade coatings such as benzoguanamine. We manufacture benzonitrile at our Wuhan Production Plant. As of the Latest Practicable Date, our aggregate designed annual production capacity of benzonitrile by our current operating manufacturing facilities was approximately 10,000 tons.

Description of benzonitrile

Raw materials	:	benzoic acid, ammonia
Formula	:	C_7H_5N
CAS number	:	100-47-0

Scope of applications	:	• as an intermediate of high-grade coatings such as benzoguanamine • as the intermediate of synthetic pesticide and aliphatic amine • as the solvent of nitrile-based rubber, resin, polymer and coating

Benzoguanamine

Benzoguanamine is a white crystalline powder. It is mainly used for making thermosetting resins, modified resins, amino coatings, plastics, pesticides and dyes. We manufacture benzoguanamine at our Wuhan Production Plant. As of the Latest Practicable Date, our aggregate designed annual production capacity of benzoguanamine by our current operating manufacturing facilities was approximately 5,000 tons.

Description of benzoguanamine

Raw materials	:	benzonitrile, dicyandiamide
Formula	:	$C_9H_9N_5$
CAS number	:	91-76-9
Scope of applications	:	• for thermosetting resin, amino resin and modified resin • as the intermediate of plastics, pesticides and dyes

Other fine chemical products

Our other fine chemical products mainly include benzyl acetate and p-methyl benzyl chloride.

Benzyl acetate

Benzyl acetate is an important fragrance and solvent. It can be used in the synthesis of alkyd resins and as an excellent solvent for nitrocellulose. We manufacture benzyl acetate at our Qianjiang Production Plant.

Description of benzyl acetate

Materials	:	dibenzyl ether, acetic anhydride
Formula	:	$C_9H_{10}O_2$
CAS number	:	140-11-4
Scope of applications	:	• as soap materials and other industrial flavors and fruity edible flavors • as solvents for shellac, cellulose acetate, dyes, greases, printing inks, etc.

P-methyl benzyl chloride

P-methyl benzyl chloride is mainly used as a synthetic raw material for fine chemical products. We manufacture p-methyl benzyl chloride at our Qianjiang Production Plant. As of the Latest Practicable Date, our aggregate designed annual production capacity of p-methyl benzyl chloride by our current operating manufacturing facilities was approximately 1,200 tons.

Description of p-methyl benzyl chloride

Materials	:	p-xylene, chlorine
Formula	:	C_8H_9Cl
CAS number	:	104-82-5
Scope of applications	:	• as an intermediate of organic synthesis, used in the manufacture of p-methyl benzyl alcohol, etc.

We also manufacture other fine chemical products at our production plants, such as p-xylene dimethyl ether, which comprised a small portion of our products portfolio in terms of our total revenues generated during the Track Record Period.

SALES AND CUSTOMERS

We have a dedicated sales department responsible for the overall management of our sales and marketing activities. As of the Latest Practicable Date, our sales department had 29 employees. Our sales department is further divided into two divisions of domestic sales and international sales with 15 and 14 employees, respectively. Each division is comprised of three sales teams which focused on different products and geographic coverage. We employ direct sales, distribution sales and products trading in various markets to broaden the reach of our products. Our sales team is responsible for business development, product delivery liaison and post-sales services under our direct sales model. In addition, our sales team is also responsible for maintaining regular contact with our distributors as well as coordinating with manufacturers and trading companies for our products trading business. Our sales team leaders report to the director of their respective sales division, who then report to our president.

Our sales team is also responsible for our marketing activities and promoting new products to new customers. We focus our marketing efforts on promoting our products and brand, and have adopted different marketing strategies for direct and distribution sales. For direct sales and products trading, our internal sales personnel promote our products to customers directly through business development meetings, product information brochures and other marketing events. For distribution sales, our distributors are responsible for promoting our products to end customers. During this process, our sales and marketing personnel communicate with our customers and distributors to implement our marketing strategies and conduct promotional activities.

During the Track Record Period, we participated in trade shows and exhibitions in the PRC and overseas to promote our products to potential customers and to gather the latest market trends and consumer preferences. We also reach our target customers through periodic communication and direct customer visits. Advertising through both online and offline media are carried out to enhance our brand awareness and recognition.

Our brand

We registered our own brand "XINKANG (新康牌)" with the Trademark Office of the State Administration of Industry and Commerce of the PRC in June 1990. On December 31, 2015, XINKANG (新康牌) was recognized as "Well-Known Trademark" by the Trademark Review Committee of the State Administration for Industry and Commerce. As of December 31, 2023, all our products sold in the PRC and in the international markets use our XINKANG (新康牌) brand. We believe the use of our own brand has strengthened customer loyalty, which facilitates our business expansion.

Our sales model

The table below sets out the breakdown of our sales by revenue channels during the Track Record Period:

	Year ended December 31,								
	2021			2022			2023		
	RMB'000	*% of revenue*	*Gross profit margin*	*RMB'000*	*% of revenue*	*Gross profit margin*	*RMB'000*	*% of revenue*	*Gross profit margin*
Direct sales channel									
– Direct sales	1,224,453	43.9	30.0%	1,624,669	51.8	26.0%	1,226,480	45.8	14.9%
– Products trading	575,926	20.6	0.6%	412,336	13.2	9.2%	456,039	17.0	3.5%
Distribution sales channel									
– Distribution sales	989,098	35.5	26.9%	1,096,831	35.0	21.8%	994,584	37.2	13.2%
Total	**2,789,477**	**100.0**	**22.9%**	**3,133,836**	**100.0**	**22.3%**	**2,677,103**	**100.0**	**12.3%**

Direct sales

We sell our products directly to end users such as chemical companies, food manufacturing and processing companies, pharmaceutical companies and animal feed producing companies in the PRC and the global markets. For the years ended December 31, 2021, 2022 and 2023, we generated revenue of RMB1,224.5 million, RMB1,624.7 million and RMB1,226.5 million, respectively, from direct sales in the PRC and overseas, representing approximately 43.9%, 51.8% and 45.8% of our total revenue for the respective periods.

Distribution sales

We also distribute and sell our self-produced products through distributors, who we expect to distribute or resell our products to their sub-distributors and end users. As of December 31, 2023, we had established an extensive distribution network comprising 435 distributors across China to conduct our distribution sales. We endeavor to leverage our established network of distributors to supplement our direct sales and further penetrate into local markets and expand the breadth and depth of our market presence. In addition, we had established an overseas distribution network comprising 251 distributors as of December 31, 2023. We believe that our existing distribution practice is consistent with customary industry practice in the PRC and global market, and serves to ensure the efficient coverage of our sales network while controlling our distribution cost. During the Track Record Period, our gross profit margin for distribution sales was lower than that for direct sales because the distributors typically purchase large quantities of our products and are able to make payment upon delivery. With these factors under consideration, we are inclined to offer relatively lower prices to our distributors compared to prices under direct sales.

The gross profit margin of our direct sales, decreased from 26.0% in 2022 to 14.9% in 2023, showing a higher magnitude of decrease as compared to the gross profit margin of our distribution sales which decreased from 21.8% in 2022 to 13.2% in 2023. The higher magnitude of decrease for direct sales as compared to distribution sales could be attributable to the change in product mix. The product mix under distribution sales remained relatively stable in 2023 while there was a decrease in proportion of direct sales of benzyl alcohol in 2023, which had a higher profit margin.

For the years ended December 31, 2021, 2022 and 2023, our revenue from sales to distributors were RMB989.1 million, RMB1,096.8 million and RMB994.6 million, respectively, representing approximately 35.5%, 35.0% and 37.2% of our total revenue for the respective periods.

Management of our distributors

Our distributors are typically regional distributors primarily involved in the distribution of chemical products with well-established local customer base. During the Track Record Period, we entered into written distribution agreements with our distributors. We also adopted a standardized distribution agreement for our distributors during the Track Record Period to effectively manage our distributors in a consistent and systematic manner.

We exercise effective control of our distributors through a variety of management methods and guidelines. First, a substantial portion of our distributors, including domestic and international distributors, are required to make prepayment before or upon delivery of our products. In addition, we implement selection criteria of our distributors and exercise necessary management over them. These selection criteria include that the (i) distributors must be lawfully established legal entities with valid business licenses issued by the relevant government authorities; (ii) distributors should have more than two years of experience in sales of related products and maintain certain level of business activities and accomplishments in the local industry; (iii) distributors should have strong financial strength, sufficient financial capacity and sound business credibility; and (iv) distributors should have professional sales personnel, strong customer maintenance capabilities and customer development capabilities. We select our distributors in each region based on the distributor's business qualifications, experience, compliance, clientele and distribution capabilities. The distribution capabilities we consider include breadth and quality of sales network, reputation, credibility and financial conditions, and capabilities in personnel, warehousing, logistics and transportation.

In addition, as the control and risk are transferred upon delivery of our products to the distributors, revenue from sales of products will be recognized when control is transferred. We have no obligation to help the distributors to dispose their unsold products when terminating their distribution agreements. During the Track Record Period and up to the Latest Practicable Date, we did not buy back any products that had been sold to our distributors, and there was no substantial exchange or return of our products due to product defects or otherwise that would have a material adverse impact on our business operations and financial conditions.

We also implement an internal pricing policy to oversee and manage our distributorship. In particular, in order to prevent channel stuffing and cross-region sales by our distributors, we implemented the following measures to oversee and manage our distributors:

- we monitor the sales volumes to our distributors on a quarterly basis and maintain regular communications with the distributors on their sales and inventory level;

- if there are specific indications and circumstances leading us to believe that our distributors have excessive inventory, we may refuse to sell additional products to them. We assess the inventory levels of our distributors based on the sales volume analysis performed internally;

- distributors are required to sign the periodically-renewed distribution agreement, which prohibits cross-region sales. If cross-region sales is identified by us, we may impose penalties on the non-compliant distributors including warnings, suspension of supplies, cancellation of price discounts, and cancellation of their distributor qualifications, based on the severity of such violations;

- we monitor and identify cross-region sales through various measures, including report by other distributors, and regular inspection and verification by our marketing team;

- we selectively maintain a limited number of distributors in each region in order to minimise any risk of market cannibalisation between our distributors;

- we promote our own-branded products through a wide variety of channels to promote the sales of distributor products. We also encourage them to participate in promotions and advertising activities that have been pre-approved by us; and

- we have a dedicated sales team providing guidance to distributors on the product pricing and how to promote and expedite the sales of products based on our years of experiences in the toluene derivative products industry in the PRC. Generally, we do not mandate selling prices of our distributors, and they may set the prices based on their own business judgment.

Based on confirmations from the Company and Directors, the products sold by the Company do not include highly toxic chemicals and dangerous chemicals used to make explosives. As advised by our PRC Legal Advisors, according to the Administrative Regulations on the Safety of Hazardous Chemicals, the hazardous chemicals sellers are obliged to check the buyers' relevant permits or licenses only when they sell highly toxic chemicals and dangerous chemicals used to make explosives. We do not sell highly toxic chemicals and dangerous chemicals used to make explosives, therefore, we are not required to check the buyers' permits or licenses for highly toxic chemicals and dangerous chemicals. To the best knowledge of our Directors, we are not required to conduct inspection on whether our distributors satisfy the requirements, if any, for relevant permits or licenses to sell our products in their respective locations.

Key terms of distribution agreements

We generally enter into distribution agreements with our distributors on an annual basis. We use a standardized distribution agreement with limited customization for all our distributors, which helps us efficiently manage our distributors and ensure an orderly market for our products. During the Track Record Period, the key terms of our standardized distribution agreement included:

(i) the distribution agreements are generally for a period of one year and do not have automatic renewal clauses;

(ii) the products are checked and accepted in accordance with national standards, and written objections on the quality of the products must be made by the distributors within three days of delivery, after which the Company is deemed to have delivered products to the satisfaction of the distributors;

(iii) the unit price of the goods, the place of delivery, the method of delivery and the cost of transportation are agreed in separate purchase order;

(iv) a substantial portion of the distributors are required to pay the full purchase price for the goods prior to each order, and all distributors are required to settle all payments of goods for that year by the end of each calendar year; and

(v) if a distributor is late in making payment for the goods, the distributor is liable for late payment penalty at the rate of 0.03% per day until the all payments are made, and if the payment is more than 15 days late, the Company is entitled to terminate the contract early and pursue claims against the distributor for breach of contract.

We primarily rely on distribution agreements, policies and measures we have in place to oversee and manage our distributors. Generally, the distribution agreements entered between our distributors and us are non-exclusive. Our Directors are of the view that there was no sales cannibalization issue among our distributors and also with us because our distributors distribute our products through their own connections within their own business and market network to end users. Therefore, we believe that our distributors have their own customers that do not materially overlap with customers of our Group. The price of goods we sell to distributors is determined by taking into consideration of a variety of factors, including prices of raw materials and market trends, and we do not exercise control over the price of the subsequent sale by our distributors to their own customers.

Changes of our distributors

During the Track Record Period, none of our distributors explicitly sought to terminate their distributorship with us. However, there were certain distributors who may suspend business engagement with us over certain periods from time to time depending on their business needs and requirements. According to Frost & Sullivan, it is an industry norm for chemical manufacturers to distribute their products through a large number of distributors and the number of distributors could fluctuate depending on changes in market circumstances. The following table sets forth changes in the number of our distributors in the PRC market during the corresponding periods:

	Year ended December 31,		
	2021	2022	2023
Number of distributors at the beginning of year	428	429	456
Increase of distributors(1)	143	181	143
Decrease of distributors(2)	142	154	164
Number of distributors at the end of year	429	456	435

Notes:

(1) Increase of distributors refer to those distributors who had no transaction with us in the previous year but transacted with us in the present year.

(2) Decrease of distributors refer to those distributors who had transaction(s) with us in the previous year but did not transact with us in the present year.

The following table sets forth changes in the number of our distributors in the overseas market during the corresponding periods:

	Year ended December 31,		
	2021	2022	2023
Number of distributors at the beginning of year	138	166	232
Increase of distributors(1)	61	94	114
Decrease of distributors(2)	33	28	95
Number of distributors at the end of year	166	232	251

Notes:

(1) Increase of distributors refer to those distributors who had no transaction with us in the previous year but transacted with us in the present year.

(2) Decrease of distributors refer to those distributors who had transaction(s) with us in the previous year but did not transact with us in the present year.

During the Track Record Period, the aggregate revenue attributed to our new addition distributors in the PRC were RMB59.9 million, RMB123.0 million and RMB104.1 million for 2021, 2022 and 2023, respectively, representing 6.1%, 11.2% and 10.5% of our aggregate revenue generated from distribution sales for the same periods. The aggregate revenue generated from the previous year attributed to the distributors who did not transact with us in the PRC in each of 2021, 2022 and 2023 were RMB35.2 million, RMB38.8 million and RMB79.0 million, respectively. In addition, for the same periods, the average revenue attributed to our new addition distributors in the overseas market were RMB812,247.4, RMB483,868.0 and RMB396,243.7, respectively, and the average revenue generated from the previous year attributed to the distributors who did not transact with us in the overseas market in the present year were RMB216,119.2, RMB285,132.0 and RMB514,787.0, respectively, for the corresponding years.

During the Track Record Period, there were 595, 688 and 686 distributors conducting business with us in 2021, 2022 and 2023, respectively. Changes in the number of distributors were mainly due to the addition of new distributors as we expanded our distribution network, and distributors' suspension of business engagement with us, which was primarily based on their own business needs. According to Frost & Sullivan, it is an industry norm for chemical manufacturers to distribute their products through a large number of distributors and the number of distributors could fluctuate depending on the changes in market circumstances. In particular, distributors may temporarily suspend their purchase from us in light of the unfavorable industry environment, which leads to the higher number of distributor decreases in 2023. During the Track Record Period and up to the Latest Practicable Date, there were no material disputes, disagreements or litigations between our Group and the distributors who suspended business with us in the corresponding periods. The extensive distribution network solidified our market leading position, elevated our products penetration and enhanced our brand image.

Relationship with our distributors

We have a seller-buyer relationship with our distributors. The ownership of the products, as well as all risks and rewards associated therewith are transferred to them upon delivery and acceptance. In general, our sales to our distributors are generally made on a payment-before-delivery basis. We may, at our sole discretion, grant credit terms not exceeding 90 days after delivery of our products to a limited number of distributors based on the distributors' credibility and their purchase volume in the previous year. We formulate a monthly production plan based on historical sales performance and number of confirmed purchase orders. Once the products are delivered to the distributors in accordance with the purchase orders, they cannot be returned except for defective products. During the Track Record Period, there was no material sales return by the distributors. Therefore, there is no obsolete stock at our end.

We also monitor the performance of our distributors in accordance with our internal policies. For example, our sales personnel keep regular and close liaison with our distributors to be aware of their sales, marketing activities, storage conditions, logistics facilities and inventory levels. Our sales staff would also prepare quarterly sales volume analysis to monitor sales volume to our distributors. Distributors are prohibited from selling any expired products or selling our products not within their designated geographic regions without our prior consent. We also encourage our distributors to report to us whether other distributors are selling our products at their designated geographic regions. Through this reporting system and our monitoring work, we ensure that our sales to distributors reflect genuine market demand, and that our distributors are complying with the terms and conditions of our distribution agreements. If we discover any non-compliance issues, we would inform the relevant distributor and consider terminating its distribution agreement. Our distributors are also liable for breaches of their distribution agreements, and we can claim compensation from them for breaches. We can terminate the distribution agreements if there are material breaches by the distributor. During the Track Record Period and up to the Latest Practicable Date, there was no termination of distribution agreement due to breach of material provisions of the agreement by any of our distributors. As at the Latest Practicable Date, 96.0% of our trade receivables from our distributors as at December 31, 2023 were subsequently settled.

During the Track Record Period, except for Hubei Tuopu, a minority shareholder of Cougar Holdings and a related party of our Group with a sales revenue of RMB24.3 million, RMB4.7 million and RMB7.6 million for the years ended December 31, 2021, 2022 and 2023, respectively, all of our distributors were Independent Third Parties, and none were controlled by our current employees.

Our five largest distributors

For the years ended December 31, 2021, 2022 and 2023, sales of our self-produced products to our five largest distributors in each year accounted for RMB210.1 million, RMB161.3 million and RMB166.7 million, representing 21.2%, 14.8% and 16.8% of our total revenue generated from sales of self-produced products to our distributors or 7.5%, 5.1% and 6.2% of our total revenue for the same periods, respectively. The table below sets forth certain information on our five largest distributors in each year during the Track Record Period:

For the year ended December 31, 2021

Five largest distributors	**Sales amount**[1]		**Background**	**Business relationship since**	**Credit term**
	RMB'000	*% of total distribution sales*			
Wego Chemical	93,860.2	9.5%	chemicals, minerals and raw materials supplier based in the U.S.	1999	90 days
Distributor A	46,767.2	4.7%	petroleum products, chemical products and other products sales and trading company based in the PRC	2018	Payment upon delivery
Hubei Tuopu	24,325.3	2.5%	products import and export trading company based in the PRC	2002	30 days
Xinrong Chemical	24,187.2	2.4%	toluene and other products trading company based in the PRC	2011	Delivery after payment
Helm De Maxico	20,937.0	2.1%	pharmaceutical, industrial chemical and other products manufacturing and distribution company based in Mexico	2010	Payment upon receipt of shipping documents

For the year ended December 31, 2022

Five largest distributors	Sales amount[(1)]		Background	Business relationship since	Credit term
	RMB'000	*% of total distribution sales*			
Wego Chemical	51,011.7	4.7%	chemicals, minerals and raw materials supplier based in the U.S.	1999	90 days
Suzhou Yinshenghe Chemical Co., Ltd.* (蘇州印盛禾化工有限公司, the "**Suzhou Yinshenghe**")	33,837.7	3.1%	petroleum products, chemical products and other products sales and trading company based in the PRC	2020	Delivery after payment
Wuhan Xinlantian Chemical Co., Ltd.* (武漢市鑫藍天化工有限公司)	28,619.7	2.6%	toluene and other products trading company based in the PRC	1998	Delivery after payment
Jiangsu Changzhou Yifeng Trading Co., Ltd.* (江蘇常州翌豐貿易有限責任公司)	24,087.7	2.2%	chemical and other products trading company based in the PRC	2021	Payment upon delivery
Distributor A	23,785.1	2.2%	petroleum products, chemical products and other products sales and trading company based in the PRC	2018	Payment upon delivery

For the year ended December 31, 2023

Five largest distributors	Sales amount[(1)]		Background	Business relationship since	Credit term
	RMB'000	*% of total distribution sales*			
Wego Chemical	49,709.0	5.0%	chemicals, minerals and raw materials supplier based in the U.S.	1999	90 days
Nanjing Aisijin Chemical Co., Ltd.* (南京艾斯金化工有限公司, the "**Nanjing Aisijin**")	46,831.8	4.7%	petroleum products, chemical products and other products sales and trading company based in the PRC	2022	Delivery after payment
Distributor A	28,670.4	2.9%	petroleum products, chemical products and other products sales and trading company based in the PRC	2018	Payment upon delivery
Zhejiang CHEMICALS Import and Export Corporation* (浙江省化工進出口有限公司)	21,547.2	2.2%	petroleum products, chemical products and other products sales and trading company based in the PRC	1999	Payment upon delivery
Suzhou Yinshenghe	19,953.1	2.0%	petroleum products, chemical products and other products sales and trading company based in the PRC	2020	Delivery after payment

Note:

(1) The sales amount only includes revenue from distribution sales and does not include revenue from direct sales or products trading.

Products trading

In addition to direct sales of our self-produced products, our direct sales channel also includes purchasing products from our suppliers and reselling them to our customers in the PRC and global markets. All products trading were conducted through direct sales channel during the Track Record Period. For the years ended December 31, 2021, 2022 and 2023, our revenue from products trading were RMB575.9 million, RMB412.3 million and RMB456.0 million, respectively, representing 20.6%, 13.2% and 17.0% of our total revenue for these respective periods.

Our products trading business mainly consists of toluene product trading, which is a primary raw material for our toluene derivative products manufacturing. We engage in products trading to facilitate the procurement of raw materials for our primary production operations, ensure our access to a steady source of raw material and as an integral part of the inventory management system adopted by our Group to minimize cost of sales. Petroleum toluene is produced from petroleum, and there are limited number of major suppliers of petroleum toluene in the PRC market. These major suppliers may prioritize selling their products to their customers with established long-term business relationship and with large and persistent demands. Other purchasers with no such prior business relationship with these major suppliers may and commonly solicit information regarding the availability of petroleum toluene and other raw materials on the Independent Commodity Intelligence Services, which operates as an independent information exchange platform for companies generally engaged in the chemical, fertilizer and energy industry, to source raw materials for their productions. As one of the "AAA" rated customers of SINOPEC Huazhong, a branch of a wholly-owned subsidiary of SINOPEC and a major petroleum toluene supplier and industry participant in China, we are able to place large-scale procurement orders with SINOPEC and other reputable industry suppliers. When our raw material inventory meets or exceeds the requirements for our production, we may engage in toluene product trading to sell our surplus inventory by obtaining information and tracking market opportunities on the Independent Commodity Intelligence Services to improve our cash-flow position. We also engage in other products trading business when we observe demands and potential profitability for products we purchased to complement our self-produced products sales and enhance customers cohesiveness for our business operation by providing customers with various trading products. We do not purchase excess inventory under our product trading as we continue to focus on the production and sales of our self-produced products.

Pursuant to the Frost & Sullivan Report, it is an industry practice in the PRC and the global market that toluene derivative companies choose to source their raw materials through products trading. In this manner, toluene and toluene derivatives providers are able to respond to market fluctuations by leveraging benefits such as sufficient customer resources, the ability to command high premiums due to economies of scale, and the flexibility to adjust inventories with in-depth market insight.

Geographical markets

As of December 31, 2023, we sold our products in the PRC and more than 70 countries in the global market, including the Americas, Southeast Asia and Europe. The table below sets forth an analysis of our revenue and gross profit margin by region for the periods indicated:

	Year ended December 31,								
	2021			2022			2023		
	RMB'000	*% of revenue*	*Gross profit margin*	*RMB'000*	*% of revenue*	*Gross profit margin*	*RMB'000*	*% of revenue*	*Gross profit margin*
Mainland China	2,171,112	77.8	21.4%	2,452,017	78.2	20.7%	2,060,003	76.9	10.8%
Asia (except Mainland China)[(1)]	262,513	9.4	28.1%	308,110	9.8	28.7%	287,508	10.7	19.8%
The Americas[(2)]	212,821	7.6	32.3%	159,116	5.1	33.2%	135,882	5.1	18.1%
Europe[(3)]	119,477	4.3	22.2%	185,654	5.9	23.6%	175,848	6.6	13.0%
Other countries/ regions[(4)]	23,554	0.9	23.7%	28,939	1.0	23.2%	17,862	0.7	10.1%
Total	**2,789,477**	**100.0**	**22.9%**	**3,133,836**	**100.0**	**22.3%**	**2,677,103**	**100.0**	**12.3%**

Notes:

(1) mainly includes Japan, India, Thailand and other countries and regions in Asia

(2) mainly includes U.S., Canada and other countries and regions in North and South America

(3) mainly includes the United Kingdom, Sweden and other countries and regions in Europe

(4) mainly includes Australia, New Zealand and other countries and regions

Sales to customers in the PRC

Our domestic sales to major industrial customers are conducted directly through our internal sales department. In addition, our domestic sales team is also responsible for the management of our sales to smaller customers through regional distributors. As of the Latest Practicable Date, we had a team of 15 sales professionals responsible for our sales in the domestic market.

For the years ended December 31, 2021, 2022 and 2023, revenue generated from our domestic sales in the mainland China amounted to RMB2,171.1 million, RMB2,452.0 million and RMB2,060.0 million, respectively, accounting for 77.8%, 78.2% and 76.9% of our total revenue, respectively.

During the Track Record Period, our gross profit margin in mainland China slightly decreased from 21.4% in 2021 to 20.7% in 2022 primarily due to our adoption of a pricing strategy to sell our toluene oxidation products at a relatively lower price in light of the market competition and the volatile downstream market demand in order to gain market share in 2022. Our gross profit margin in mainland China further decreased to 10.8% in 2023, which was primarily due to the decrease in margin of our toluene oxidation products and toluene chlorination products from 20.0% and 27.5% in 2022 to 10.0% and 19.5% in 2023 due to the decrease in downstream demands as many downstream industry customers tend to lower their inventory level or slow down their inventory replenishment amid economic uncertainty and we adopted a pricing strategy to sell our products at a relatively lower price to maintain our market share in light of the unfavourable industry environment and to cope with the intensified market competition resulted from the increase in market supply of toluene oxidation products.

Sales to customers in international markets

We commenced sales directly in the international markets in 1996. As of the Latest Practicable Date, we marketed and sold our products across the world with a particular focus on the North American, Southeast Asian and European markets. As of the same date, we had a team of 14 sales professionals dedicated to managing our sales in the international markets.

According to the Frost & Sullivan Report, our Group was the second largest manufacturer for benzoic acid and sodium benzoate and the third largest manufacturer for benzyl alcohol in the global market in terms of the sales revenue in 2023, accounting for 37.0%, 22.4% and 20.6% of the global total market revenue, respectively. For the years ended December 31, 2021, 2022 and 2023, revenue generated from our sales in the international markets amounted to RMB618.4 million, RMB681.8 million and RMB617.1 million, accounting for 22.2%, 21.8% and 23.1% of our total revenue, respectively. Our sales to the international markets are mainly conducted through direct sales supplemented by distribution sales and products trading in the global markets.

Our gross profit margin in the overseas markets remained relatively stable from 2021 to 2022. Our gross profit margin in the overseas markets experienced an overall decrease in 2023 due to the downward trend in the overseas market demands for the same reasons as for domestic sales as well as the higher inventory purchased by overseas customers in 2022 in light of the then transportation restriction amid COVID-19 related measures in the PRC. In addition, we adopted a pricing strategy to sell our products at a relatively lower price to maintain our market share in light of the unfavourable industry environment and to cope with the intensified market competition resulted from the increase in market supply of toluene oxidation products.

During the Track Record Period, the gross profit margin of our products sold in the overseas markets was relatively higher than that in the PRC because we were able to charge a relatively higher price considering the higher production costs of overseas manufacturers and we were benefited from the lower production costs in the PRC.

Our products are required to comply with the local regulations and standards on product quality and food safety in all international markets to which our products are sold. Our international customers may also require us to follow the prescribed standards with respect of quality, raw materials used and labeling. We rely on our PRC freight forwarder and our overseas customers to complete all such relevant procedure, and they are also responsible for complying with other aspects of the relevant PRC and foreign laws and regulations. Specifically, our freight forwarder will (i) prepare the filing documents submitted to the government authorities; (ii) prepare the shipping documents submitted to the shipping companies; (iii) confirm with the latest sailing schedules; and (iv) liaise with our sales team to provide updates regarding the details of export activities.

As confirmed by our PRC Legal Advisors, we have obtained the necessary approvals and filed with relevant governments of international trade under the requirements of PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that we have completed all necessary procedures to obtain the applicable approvals, certificates, registrations or other required confirmations from the relevant government authorities and in the countries to which we export our products.

Our five largest customers

For the years ended December 31, 2021, 2022 and 2023, sales to our five largest customers in each year were RMB731.5 million, RMB583.2 million and RMB581.2 million, representing 26.3%, 18.6% and 21.8% of our total revenue for the same periods, respectively, and sales to our single largest customer in each year accounted for 13.6%, 6.3% and 8.1% of our total revenue for the same periods, respectively.

The tables below set forth certain information of our five largest customers in each year during the Track Record Period:

For the year ended December 31, 2021

Five largest customers	Sales amount		Type of products purchased	Background	Year of incorporation	Registered capital	Payment method	Business relationship since	Credit term	Sales channel
	RMB'000	*%*								
Jiangsu Hanrong	378,914.3	13.6%	toluene products	toluene and other products trading company based in the PRC	2014	RMB10.5 million	electronic transfer	2017	Payment upon delivery	Products trading
Customer Group B[1]	142,876.3	5.1%	toluene oxidation products	food & beverage additive, feed additive and other products manufacturer based in Switzerland	1995 and 2004	USD66.95 million and CHF50.0 million, respectively	electronic transfer	2010	90 days	Direct sales
Wego Chemical	93,860.2	3.4%	toluene oxidation products/benzoic acid ammonification products	chemicals, minerals and raw materials supplier based in the U.S.	1978	USD10.0 million	electronic transfer	1999	90 days	Distribution sales
Chongqing Tianxu Chemical Co., Ltd.* (重慶天旭化工有限公司, the "**Chongqing Tianxu**")	60,366.4	2.2%	toluene products	toluene and other products trading company based in the PRC	2008	RMB50.0 million	electronic transfer	2019	Payment upon delivery	Products trading
Changzhou Chemical and Light Materials Co., Ltd.* (常州市化工輕工材料總公司, the "**Changzhou Chemical**")	55,460.8	2.0%	toluene products	toluene and other products trading company based in the PRC	1978	approximately RMB21.7 million	electronic transfer	2021	Delivery after payment	Products trading

For the year ended December 31, 2022

Five largest customers	Sales amount		Type of products purchased	Background	Year of incorporation	Registered capital	Payment method	Business relationship since	Credit term	Sales channel
	RMB'000	%								
Customer Group B[(1)]	197,416.7	6.3%	toluene oxidation products	food & beverage additive, feed additive and other products manufacturer based in Switzerland	1995 and 2004	USD66.95 million and CHF50.0 million, respectively	electronic transfer	2010	90 days	Direct sales
Changzhou Chemical	149,435.2	4.8%	toluene products	toluene and other products trading company based in the PRC	1978	approximately RMB21.7 million	electronic transfer	2021	Delivery after payment	Products trading
Jiangsu Hanrong	146,191.2	4.7%	toluene products	toluene and other products trading company based in the PRC	2014	RMB10.5 million	electronic transfer	2017	180 days	Products trading
Wego Chemical	51,011.7	1.6%	toluene oxidation products/benzoic acid ammonification products	chemicals, minerals and raw materials supplier based in the U.S.	1978	USD10.0 million	electronic transfer	1999	90 days	Distribution sales
Rich Chemical (Hubei) Co.,Ltd.* (瑞奇化工(湖北)有限公司, the "**Rich Chemical**")	39,119.1	1.2%	toluene chlorination products	Chemicals raw materials supplier based in the PRC	2012	RMB30.0 million	electronic transfer	2015	Delivery after payment	Direct sales

For the year ended December 31, 2023

Five largest customers	Sales amount		Type of products purchased	Background	Year of incorporation	Registered capital	Payment method	Business relationship since	Credit term	Sales channel
	RMB'000	%								
Changzhou Chemical	215,687.9	8.1%	toluene products	toluene and other products trading company based in the PRC	1978	approximately RMB21.7 million	electronic transfer	2021	Delivery after payment	Products trading
Customer Group B[(1)]	214,842.1	8.0%	toluene oxidation products	food & beverage additive, feed additive and other products manufacturer based in Switzerland	1995 and 2004	USD66.95 million and CHF50.0 million, respectively	electronic transfer	2010	90 days	Direct sales
Wuhan Hengdazonglian New Material Co., Ltd.* (武漢恒達縱聯新材料有限公司)	51,098.0	1.9%	toluene chlorination products	rubber products, mechanical equipment, building materials, chemical products, exhibition services and building materials based in the PRC	2019	RMB2 million	bank acceptance bill and electronic wire transfer	2019	Delivery after payment	Direct sales

Five largest customers	Sales amount		Type of products purchased	Background	Year of incorporation	Registered capital	Payment method	Business relationship since	Credit term	Sales channel
	RMB'000	*%*								
Nanjing Aisijin	49,820.7	1.9%	toluene oxidation products	petroleum products, chemical products and other products sales and trading company based in the PRC	2015	RMB1.2 million	Delivery after payment	2022	Delivery after payment	Distribution sales
Wego Chemical	49,709.0	1.9%	toluene oxidation products/benzoic acid ammonification products	chemicals, minerals and raw materials supplier based in the U.S.	1978	USD10.0 million	electronic transfer	1999	90 days	Distribution sales

Note:

(1) Customer Group B refers to a company based in the PRC and Customer B based in Switzerland, collectively. Both companies are under the control of the same ultimate controlling party.

The majority of our five largest customers during the Track Record Period were toluene and other products trading companies based in the PRC, and they actively engage in bulk-trading business. Generally, the upstream petroleum toluene suppliers may prioritize to sell their products to purchasers ordering large amount of petroleum toluene engaged in manufacturing while trading companies mainly source petroleum toluene on the Independent Commodity Intelligence Services, which operates an independent information exchange platform for companies of the chemical, fertilizer and energy industries. Since 2019, we entered into annually-renewed framework sales and purchase agreements with upstream petroleum toluene suppliers, which enable us to maintain a stable source of raw material supply for our production and afford us the capacity to conduct toluene product trading with any supply surplus. The foremost goal of our products trading business is to facilitate the procurement of raw materials for our primary production operations, and we only engaged in toluene product trading when inventory level exceeds our requirement for production. Therefore, revenue generated from our toluene product trading business fluctuated during the Track Record Period.

The composition of our five largest customers may change from time to time due to the bulk-trading nature characterized by large purchases and sales under the product trading or distribution sales segment of our operations. Therefore, certain customers with relatively short business relationship with us may become our five largest customers during our Track Record Period. Chongqing Tianxu became our fourth largest customers in 2021 and purchased RMB60.4 million of toluene products under products trading shortly after their commencement of business relationships with us. In 2022, Chongqing Tianxu's purchases decreased to RMB6.7 million. Similarly, in 2021, Changzhou Chemical became our fifth largest customers shortly after establishing business relationship with us and purchased RMB55.5 million of toluene products under products trading in 2021. In 2022, Changzhou Chemical became our second largest customer with the purchase amount of RMB149.4 million and became our largest customer in 2023 with the purchase amount of RMB215.7 million. In 2023, Nanjing Aisijin became our fourth largest customers shortly after establishing business relationship with us in 2022 and purchased RMB49.8 million of toluene oxidation products from us. To the best of the Company's knowledge, Nanjing Aisijin is operated by the core team of a toluene oxidation product manufacturer who exited the market in 2022, and this team has established sales channels in distributing our products. We believe these changes in the composition of our five largest customers during the Track Record Period were primarily due to changes in purchase volume from these customers based on their business planning and market activities for toluene product trading. We do not rely on any particular customers to purchase our products under our self-produced products and product trading segments, and the overall market demand for our products is not materially affected by any particular customers' business decision to increase or decrease their purchases from us during a particular period. Therefore, the composition changes of our five largest customers did not significantly affect our business operations and financial results.

None of our Directors or their respective associates or any Shareholder, who to the knowledge of our Directors, owns more than 5% of the issued Shares immediately after completion of the Global Offering, had any interest in any of our five largest customers during the Track Record Period.

Credit period and payments

We generally do not extend credit to our domestic customers, and the substantial portion of purchases placed with us were upon receipt of payment. For limited domestic customers and certain international customers, we provide credit to them subject to various factors, including their scale of operations, duration of our business relationship, customers' historical payment records and industry practices. With this criteria in place, we may grant credit to a limited number of trustworthy customers. During the Track Record Period, the credit periods for our customers were generally from one to four months. Our customers in the PRC are required to settle their payments in RMB. Our international customers mainly settle their payments in US dollars.

We did not adopt hedging policy against fluctuations in foreign currencies in relation to our overseas sales or hedging policy against fluctuations in the prices of raw materials and products during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we did not experience any major default in payments by our customers which could have a material adverse impact on our business and financial condition and results.

For the years ended December 31, 2021 and 2022, our impairment loss from expected credit losses on trade receivables amounted to RMB184,000 and RMB314,000, respectively. Our gains due to to reversal of impairment of trade receivables was RMB188,000 for the year ended December 31, 2023. Our expected credit losses on trade receivables increased in 2022 as compared with that of 2021 was in line with the revenue increases and were primarily due to the increased amount of RMB36.6 million non-overdue trade receivables. For the amount of expected credit losses to be made under our accounting policy, please refer to "Financial Information — Material Accounting Policies and Significant Accounting Estimates — Significant Accounting Estimates — Provision for expected credit losses on trade receivables" in this prospectus.

THIRD PARTY PAYMENTS

During the year ended December 31, 2021, a total of 38 customers (the "**Relevant Customers**") out of a total number of 1,021 customers, representing approximately 3.7% of the total number of customers for the year ended December 31, 2021, mainly small local merchants and distributors, settled their invoices (hereinafter referred to as the "**Third Party Payments**" or "**TPP**") through domestic third parties (the "**Third Party Payors**"). For the year ended December 31, 2021, approximately RMB5.1 million of our Group's revenue were settled through Third Party Payors (the "**TPP Revenue**"), representing approximately 0.18% of the total revenue of our Group in 2021. Our Group has fully ceased the acceptance of Third Party Payments as of January 1, 2022.

The Third Party Payors were comprised of two groups of individuals and companies, which were (i) shareholders, directors, legal representatives, senior management of the Relevant Customers or their respective relatives or parties which previously owed money to the Relevant Customers (collectively, the "**Related Parties**"); and (ii) downstream customers of the Relevant Customers (the "**Downstream Customers**"). There were 21 Third Party Payors who were Related Parties, which attributed to approximately 57.7% of the TPP Revenue for the year ended December 31, 2021, and there were 17 Third Party Payors who were Downstream Customers, which attributed to approximately 42.3% of the TPP Revenue for the year ended December 31, 2021. To the best knowledge of the Directors and having made all reasonable enquiries, all the Relevant Customers and their Third Party Payors were Independent Third Parties, and did not have any past or present relationships (including employment, trust or financing) with the Company and its connected persons other than the purchase of toluene derivative products related to the Third Party Payments.

For a majority of the underlying sales transaction of the TPP Revenue, the Group received payment instructions signed by the Relevant Customers and the Third Party Payors confirming that the Third Party Payments were for the settlement of these sales transaction. The Group did not enter into any tripartite agreements with the Relevant Customers and the Third Party Payors. The Directors confirm that the Group did not provide or receive any discount, commission or rebate under Third Party Payments.

Reasons for Third Party Payments

To the best knowledge of our Directors, after making reasonable enquiries with the Relevant Customers and their corresponding Third Party Payors, the occurrence of Third Party Payments was mainly due to:

a. For Third Party Payments by Related Parties, (i) these Relevant Customers settled their invoices through Related Parties mainly for administrative convenience or when Relevant Customers had insufficient funds; and (ii) the Relevant Customers had repaid or set-off the amount due to their Related Parties through the Third Party Payments. According to Frost & Sullivan, it is not uncommon for private enterprises or corporate entities or individuals to settle their bills and invoices through their Related Parties in the PRC mainly because (i) they have insufficient fund in their transaction accounts; (ii) they have previous unsettled balances with these Related Parties; or (iii) for administrative convenience (i.e., avoidance of bank charges for transfer of funds and related costs for overdraft services).

b. For Third Party Payments by Downstream Customers, (i) these Relevant Customers were local merchants and distributors which generally resold our products to their Downstream Customers, who were mainly small-sized retail users and individuals, and arranged direct payment by their Downstream Customers to the Group for efficiency purpose; and (ii) the payment obligations of the Relevant Customers had been fulfilled when the Downstream Customers made the relevant payments to the Group. As confirmed by Frost & Sullivan, it is not uncommon for Downstream Customers to order sodium benzoate, a product mainly used for food preservatives, via distributors of the Group (i.e. the Relevant Customers) and thereby enjoy a more competitive price or discount typically offered to the distributors with large purchases. To the best knowledge of the Directors having consulted with certain Relevant Customers, these Relevant Customers generally charged their Downstream Customers a mark-up on reselling of our products, which were either paid to our Group by the Downstream Customers and credited to the account of the Relevant Customers or settled between the Relevant Customers and their Downstream Customers in their other transactions.

During the year ended December 31, 2021, we did not object to Third Party Payments from Third Party Payors given that (i) our Directors believe, and Frost & Sullivan concurs, based on the aforementioned reasoning, it is not uncommon for toluene derivative products providers in PRC to adopt Third Party Payments; (ii) it would not cause any inconvenience or delay in the Group's payment collection; (iii) all products cannot be returned unless due to product defect; and (iv) there was no material difference between the key commercial terms, including pricing, time and credit period, between the sales contracts entered into with customers who made payments directly and those who made payments via Third Party Payors.

Legality of Third Party Payments

As advised by our PRC Legal Advisors, based on the authenticity and validity of the trade contracts involved, the acceptance of Third Party Payments is not prohibited under the PRC laws and regulations.

Based on confirmation provided by our Group, the relevant sales contracts were completed without any contractual dispute, and as the Third Party Payments were made to fulfill payment obligations under actual trade contracts by the Third Party Payors on behalf of the Relevant Customers, our PRC Legal Advisors further advise that the risks of our Group, directors and employees being subjected to substantial civil liabilities arising from (i) civil claims or disputes arising from acceptance of Third Party Payments; (ii) potential civil claims from the Third Party Payors for return of the fund; and (iii) potential civil claims from the Third Party Payors as to the legality of the Third Party Payments arrangement is low.

To the best information, knowledge and belief of our Directors and after making reasonable enquiries, there were (i) no dispute related to the Third Party Payments during the Track Record Period and up to the Latest Practicable Date; and (ii) we did not issue any repayment or refund to our customers or the Third Party Payors related to the Third Party Payments during the Track Record Period and up to the Latest Practicable Date.

Money Laundering Risks

Pursuant to Article 191 of the Criminal Law of the PRC (《中華人民共和國刑法》), a corporation commits a money laundering offence if it (i) fabricates or conceals third party payments from proceeds or gains obtained from drug-related crimes, crimes committed by criminal organizations, crimes of terrorism, smuggling, bribery and corruption, crimes undermining the financial order of society and financial fraud (the "**Relevant Offences**"); and (ii) commits certain acts for the purpose of concealing the source and nature of the above proceeds or gains. If a money laundering offence is committed, the subject corporation may be fined and the personnel directly responsible for the violation may be subject to a maximum of 10 years imprisonment.

There is no ground for our Directors to believe that the Third Party Payments were proceeds or gains from the Relevant Offences on the following basis:

(i) to the best knowledge of our Directors and after making reasonable enquiries, the reason for the Third Party Payments made by the Relevant Customers through the Third Party Payors were for the settlement of invoices of authentic purchase orders to the Group, and none of the Third Party Payments was made by cash;

(ii) our Directors were unaware of any Relevant Customers or Third Party Payors being convicted of any criminal offences based on desktop search results and having consulted with the relevant sales representatives of the Group, or any unusual circumstances with respect to the Third Party Payments which, to the best knowledge of the Directors, subject the Group to material risks of money laundering; and

(iii) the Sole Sponsor has arranged independent interviews with selected Relevant Customers and Third Party Payors, each of whom has confirmed that, among others, (a) the funds for Third Party Payments were originated from legitimate sources and were not associated with the Relevant Offences; (b) the source of funding of Third Party Payors commonly originated from personal or business financial resources; (c) the Relevant Customers and the Third Party Payors had not committed any acts for the purpose of concealing any source and nature of any proceeds or gains from any crimes; and (d) the Relevant Customers and the Third Party Payors have settled the Third Party Payments, and there were no dispute or potential dispute regarding the underlying sales transactions and their related Third Party Payments.

Each of the executive Directors, non-executive Directors, senior management of the Company and sales representatives of the Group who was responsible for the accounts of the Relevant Customers confirmed that (i) the trade contracts concerning Third Party Payments were genuine and effective, and were fully settled; (ii) they had no knowledge of, or there was no evidence which may indicate any Third Party Payments were funded by proceeds or gains associated with the Relevant Offences; and (iii) they did not commit, or is committing or intends to commit any act for the purpose of concealing the source and nature of the above proceeds or gains, and had no knowledge of any Group member, management team or sales representatives that committed, was committing or intend to commit any act for the purpose of concealing the source and nature of the above proceeds or gains. As far as these individuals were concerned, the acceptance of Third Party Payments by the Group was not for the purpose of concealing or transferring the source and nature of the above proceeds or gains.

Taking into account the above, our PRC Legal Advisors are of the view, and the PRC legal advisors to the Sole Sponsor concur, that the risks of the acceptance of Third Party Payments being deemed as money laundering under the Criminal Law of the PRC is low.

In addition, the Sole Sponsor conducted independent due diligence interviews with selected Relevant Customers and Third Party Payors, obtained supporting documents to ascertain their relationships and conducted independent background search and desktop search to ascertain whether any of them have been convicted of a Relevant Offence during the year ended December 31, 2021. Based on the independent due diligence works, nothing came to the Sole Sponsor's attention which would cast doubt on the views of the Directors and the PRC Legal Advisors as detailed above.

Rectification Measures

The Group ceased to accept Third Party Payments since January 1, 2022. The Group has taken the recommendations provided by the Internal Control Consultant and revised its Receivables Management Policy (《應收賬款管理制度》), and implemented the following internal control measures to ensure the effective cessation of accepting Third Party Payments (collectively, the "**Third Party Payments Policy**"):

(i) the Group has informed all existing customers and customers involved in Third Party Payments for the year ended December 31, 2021 by public announcement of the policy to cease the acceptance of Third Party Payments and requested customers to make direct payment to the Group only;

(ii) the supervisor and relevant staff in the accounting and finance department of the Group will perform internal reviews and inspections on a continual basis to ensure all VAT invoices are addressed to the contractual customers, and customer payments are remitted or deposited from the customer's bank account or under the customer's own name. In the event that payment is received from a Third Party Payor purporting to settle any invoice on behalf of a customer, the Group's accounting and finance staff will (a) set aside the fund; (b) inform the Relevant Customers that no Third Party Payments will be accepted and request for settlement by the customer directly; (c) arrange to refund the payment to the Third Party Payor; and (d) maintain all payment and refund proof for record keeping; and

(iii) the supervisor and relevant staff of the business department of the Group has circulated the revised Third Party Payments Policy as well as provided trainings to staff regarding the cessation of accepting Third Party Payments.

Our Directors confirmed that since the adoption of the Third Party Payments Policy and up to the Latest Practicable Date, our Group had not accepted any Third Party Payments, and has strictly followed and enforced the Third Party Payments Policy. Furthermore, since the TPP Revenue only accounted for an immaterial portion of the Group's revenue for the year ended December 31, 2021, and there was no dispute between the Group, the Relevant Customers and the Third Party Payors during the Track Record Period and up to the Latest Practicable Date, our Directors were of the view that the cessation of the Third Party Payments did not and will not bring a material adverse impact on the Group's business, operation and financial performance.

The Internal Control Consultant reviewed our Group's Third Party Payments Policy and performed sample testing on the Group's sales transactions after January 1, 2022, and did not identify any deficiency in relation to the Third Party Payments following the implementation of the Third Party Payments Policy by our Group. Based on the foregoing, our Directors are of the view that the Third Party Payments Policy is effective and adequate in preventing Third Party Payments in the future.

Product pricing

We adopt three pricing approaches for product sales. For single orders with relatively small volume, we set a minimum price for each category of product on a weekly basis taking industry fluctuation into consideration, and our sales team are granted certain range of price adjustment to determine the actual price according to market factors and customers' needs. The final price determination is reviewed by our sales managers and sales directors. For certain specific products, the pricing is based on the reference to the price marked by our large domestic industry customers at common marketplaces. For our major customers, we adopt an annual pricing approach, by which we set prices throughout the year according to the price of raw materials. These three approaches are adopted to ensure to capture market gains while affording us the ability to foster long-term business relationships.

For our international customers, we usually require long-term contracts that specify a minimum purchase quantity requirements. These long-term contracts are usually over one year in contract term, and we use our pricing approaches to determine the contract price. We occasionally execute five-year contracts with certain customers with large and continuous demands, and these customers are credit-worthy entities with extensive operating history. The price set under the five-year contract is generally calculated on a monthly basis with a pre-determined formula and the price fluctuation from month-to-month takes into changes in variable costs.

The price of our products and the raw materials we purchase fluctuate according to the market oil price, and thus unexpected fluctuations in oil price may lead to certain pricing risks. We entered into annual framework agreements with upstream suppliers of our primary raw material, petroleum toluene. These framework agreements provide the annual purchase amount and the purchase prices are calculated based on the monthly market settlement price, which afford us a stable source of supply of raw material at a competitive price level. Benefited from the dynamic pricing mechanism, which is in line with industry practice for pioneering participants, we are able to overcome and minimize the impact of fluctuations in the prices of raw materials and products to a certain extent to enhance our leading position. Under common circumstances, if there are material increases in the average unit purchase cost or fluctuation in exchange rates, we may transfer a portion of the cost increase to our customers. However, under certain circumstances, we may not be able to fully transfer the increased cost to the customers in light of the keen market competition and the volatile downstream market demand. Therefore, we may also adopt market-oriented pricing policies to reflect market fluctuations and maintain our market share. According to Frost & Sullivan, with a steady growth in downstream market demand, the sales volume of specialty chemicals (including toluene derivative products) is sensitive to the fluctuation of its selling price in China and the global market.

In addition, we have designed internal mechanisms to control various pricing risks by taking into considerations of various factors, including its current stock level, future sales and market trend of toluene price. Specifically, when the price of raw materials is rising, we will timely adjust our selling price to the extent possible so as to pass on part of the increased costs; when the price of raw materials falls, we will accelerate our product turnover and maintain a lower inventory level. During the Track Record Period and up to the Latest Practicable Date, we did not adopt any hedging policies for the fluctuations in the prices of raw materials and products.

Logistics and product delivery

Generally, we are responsible for the logistics and transportation for the majority of our domestic and international orders. Our customers may elect to arrange for logistics and transportation on their own. We primarily cooperate with third-party logistics service providers to deliver products from our production facilities and warehouses to the ports or locations designated by our customers. Generally, we select the service provider through a bidding process. For domestic delivery in the PRC, we go through the bidding process for each order. For international delivery, we adopt a monthly tendering and bidding system. Delivery of our products to our customers in the PRC is primarily made by trucks and trains, and our sales to international customers are shipped mainly on cost, insurance and freight (CIF) basis or free on board (FOB) basis. Our logistics and transportation service providers are generally liable for any delay of delivery and loss in transit.

Except for the temporary interruption of our delivery and logistics process caused by the COVID-19 pandemic, we did not experience any material disruption or damage to our products in the delivery process to our customers during the Track Record Period and up to the Latest Practicable Date.

Seasonality

Our products are generally not affected by persistent and long term seasonal fluctuations due to our diverse client composition from a geographical and end-product perspective. We supply our products to participants in both the PRC market and the global market, and our customers use our products for a variety of purposes. These characteristics effectively limit our exposure to significant seasonality fluctuations. Our monthly and quarterly sales may vary due to consumption patterns of our customers and other market factors.

PROCUREMENT AND SUPPLIERS

The principal raw materials for our production are chemicals, including petroleum toluene, sodium hydroxide, chlorine and sodium carbonate, which we purchase from our suppliers. We also source various other types of materials and equipment from our suppliers, such as additives, solvents, pumps, distillation towers, reaction kettles, storage tanks and packaging materials. Our customers usually do not designate suppliers for raw materials and equipment.

We have established a comprehensive procurement management system and implemented specific procurement policies. The storage management department draws up the procurement plan for raw materials and packaging materials according to the production plan issued by the production department based on actual inventory level; the functional departments of each workshop draw up the procurement plan for regular materials according to actual needs. In addition, we generally procure based on our production plans with certain surplus amount to ensure the supply of raw material for our own manufacturing and to explore the advantages of placing large-amount purchase orders. We usually purchase on a monthly basis, and may sell its surplus toluene from time to time. The supply department is responsible for generating purchase orders from the procurement plan and placing the purchase orders. For equipment and other materials, we conduct procurement after receiving procurement requests from relevant departments.

Unless the customer requires us to procure from a designated supplier, we generally conduct procurement through tendering and bidding or negotiation with our suppliers. The tendering and bidding process is usually initiated by our procurement personnel on our procurement platform, and we usually require more than two suppliers to bid. After suppliers submit their bids, our bid evaluation team will review the bidders' qualifications from various perspectives, including quality, price, delivery term, payment term, to select the winning bidder. If the materials to be procured are specially requested by any internal department or are in urgent need, our procurement personnel may negotiate with suppliers directly without undergoing the tendering and bidding process. We source raw materials primarily from suppliers in the PRC. A small portion of raw materials and equipment are procured from overseas suppliers, and we ask our agents to perform customs clearance after we assess the quality of raw materials.

In 2018, we launched the Yangguang Purchasing Platform (陽光採購平台), which enables us to select raw materials and other products and place orders on an electronic platform. We can manually or automatically analyze prices quoted by suppliers on our Yangguang Purchasing Platform, and place orders on the platform to purchase quality products at a competitive price. The information gathered on our Yangguang Purchasing Platform also allows us to gain a more comprehensive understanding of the market trends. As of the Latest Practicable Date, the Yangguang Purchasing Platform provided online biddings for a variety of products covering raw materials, packaging, equipment and spare parts.

We have adopted a set of procedures to inspect and test materials arrived at our production plants before we accept these materials into storage. Our quality management department are generally in charge of these procedures to ensure the quality of procured materials. To achieve quality consistency, purchase orders are normally placed with suppliers which are on our internal list of qualified suppliers. For more information about our quality control on raw materials, please refer to "— Quality Management — Quality control on the sourcing of raw materials" in this section.

Except for certain bulk materials, such as petroleum toluene, we have multiple sources for most of our raw materials to reduce possible interruptions to our business operations and over-reliance on any particular supplier. We closely monitor the supply and demand conditions of raw materials and will make corresponding adjustments in our procurement plan if there is any anticipated shortage of supply or changes in the prices of the raw materials. During the Track Record Period, we did not experience any difficulty in sourcing suppliers for raw materials or any material production disruption due to shortage of raw materials.

Our purchases from our suppliers are generally made on individual purchase orders with reference to our production plans and demand for our products. For certain bulk material suppliers, we sign annual framework agreements with these suppliers and specify the quantity and tentative price of raw materials to be supplied throughout the year. We include in our purchase orders for raw materials the product specifications, quantity and quality, payment terms, delivery schedules and liability for breach of contract. Our purchase orders for equipment also include additional terms such as warranty and intellectual property rights. We did not enter into long-term agreements with our suppliers during the Track Record Period, as our Directors believe that it is an industry practice to maintain flexibility in purchase quantity and price.

Payment terms granted by our suppliers may vary depending on various factors including our business relationship with the suppliers and the size of our orders. Some suppliers require payment prior to delivery, while others allow us to settle payment upon delivery. Our suppliers generally extend to us credit terms ranging from nil to 60 days upon receipt of raw materials and invoice.

For the years ended December 31, 2021, 2022 and 2023, purchases from our five largest suppliers in each year, who were Independent Third Parties, were approximately RMB1,592.4 million, RMB1,716.4 million and RMB1,632.0 million, representing 76.6%, 78.0% and 79.7% of our total purchases respectively, and our largest supplier in each year accounted for 41.0%, 32.9% and 27.9% of our total purchase amount, respectively. Except for Hebei Kangshi, a joint venture of our Group, none of our Directors or their respective associates or any Shareholder, who to the knowledge of our Directors, owns more than 5% of the issued Shares immediately after completion of the Global Offering, had any interest in any of our five largest suppliers during the Track Record Period.

The tables below set forth certain information with respect to our Group's five largest suppliers in each year during the Track Record Period:

For the year ended December 31, 2021

Five largest suppliers	Purchase amount		Type of products supplied	Background	Payment method	Business relationship since	Credit term
	RMB'000	*%*					
Distributor A	852,058.6	41.0%	raw material purchase	petroleum products, chemical products and other products sales and trading company based in the PRC	electronic transfer	2018	30 days
SINOPEC Huazhong	377,031.5	18.1%	raw material purchase	acetone, toluene, sulfate, hydrochloric acid and other products sales company based in the PRC	electronic transfer and bank acceptance bill	2010	Prepayment before delivery
Yuanda Group[(1)]	155,534.3	7.5%	raw material purchase	chemical products, petroleum products and other products sales company based in the PRC	electronic transfer	2018	15 days

Five largest suppliers	Purchase amount		Type of products supplied	Background	Payment method	Business relationship since	Credit term
	RMB'000	*%*					
Supplier D	111,290.0	5.4%	raw material purchase	chemical products, petroleum products and other products sales company based in the PRC	electronic transfer	2011	30 days
Jianghan Salt Chemical	96,455.8	4.6%	raw material and energies purchase	caustic soda, liquid chlorine, hydrogen, hydrochloric acid and other products manufacturer and sales company based in the PRC	electronic transfer	1999	15 days

For the year ended December 31, 2022

Five largest suppliers	Purchase amount		Type of products supplied	Background	Payment method	Business relationship since	Credit term
	RMB'000	*%*					
Distributor A	723,129.4	32.9%	raw material purchase	petroleum products, chemical products and other products sales and trading company based in the PRC	electronic transfer	2018	30 days
SINOPEC Huazhong	561,484.5	25.5%	raw material purchase	acetone, toluene, sulfate, hydrochloric acid and other products sales company based in the PRC	electronic transfer and bank acceptance bill	2010	Prepayment before delivery
Yuanda Group[(1)]	213,644.2	9.7%	raw material purchase	chemical products, petroleum products and other products sales company based in the PRC	electronic transfer	2018	15 days
Jianghan Salt Chemical	113,112.6	5.1%	raw material and energies purchase	caustic soda, liquid chlorine, hydrogen, hydrochloric acid and other products manufacturer and sales company based in the PRC	electronic transfer and bank acceptance bill	1999	15 days
Supplier D	104,995.1	4.8%	raw material purchase	chemical products, petroleum products and other products sales company based in the PRC	electronic transfer	2011	30 days

For the year ended December 31, 2023

Five largest suppliers	Purchase amount		Type of products supplied	Background	Payment method	Business relationship since	Credit term
	RMB'000	%					
SINOPEC Huazhong and Huabei[(1)]	571,688.0	27.9%	raw material purchase	acetone, toluene, sulfate, hydrochloric acid and other products sales company based in the PRC	electronic transfer and bank acceptance bill	2010 & 2023	Prepayment before delivery
Distributor A	526,781.7	25.7%	raw material purchase	petroleum products, chemical products and other products sales and trading company based in the PRC	electronic transfer	2018	30 days
Yuanda Group[(2)]	231,233.7	11.3%	raw material purchase	chemical products, petroleum products and other products sales company based in the PRC	electronic transfer	2018	15 days
Hebei Kangshi[(3)]	151,221.5	7.4%	raw material and processed products purchase	chemical products and other products sales company based in the PRC	electronic transfer	2023	Prepayment before delivery
Supplier D	151,032.7	7.4%	raw material purchase	chemical products, petroleum products and other products sales company based in the PRC	electronic transfer	2011	30 days

Notes:

(1) SINOPEC Huazhong and Huabei refers to SINOPEC Chemical Commercial Holding Company Limited Huazhong Branch (中國石化化工銷售有限公司華中分公司, "**SINOPEC Huazhong**") and SINOPEC Chemical Commercial Holding Company Limited Huabei Branch (中國石化化工銷售有限公司華北分公司, "**SINOPEC Huabei**"), collectively. Each of SINOPEC Huazhong and SINOPEC Huabei is a branch of a wholly-owned subsidiary of SINOPEC. SINOPEC Huabei commenced business with our Group in 2023.

(2) Yuanda Group refers to Yuanda Energy Chemical Co., Ltd.* (遠大能源化工有限公司) and Yuanda Petroleum Chemical Co., Ltd.* (遠大石油化學有限公司), collectively. Both companies are under the control of the same ultimate controlling party.

(3) Hebei Kangshi is a joint venture of our Group.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

To the best knowledge and belief of our Directors, during the Track Record Period, (i) Distributor A was one of the five largest suppliers in 2021, 2022 and 2023 and our customer in the same period; and (ii) Hebei Kangshi was our fourth largest supplier in 2023 and our customer in the same year (Distributor A and Hebei Kangshi, collectively, the "**Overlapping Customers and Suppliers**").

For the years ended December 31, 2021, 2022 and 2023, revenue generated from the Overlapping Customers and Suppliers were approximately RMB46.8 million, RMB25.9 million and RMB28.7 million, representing approximately 1.7%, 0.8% and 1.1% of our total revenue for the same periods, respectively. Our purchase amount from the Overlapping Customers and Suppliers were approximately RMB852.1 million, RMB723.1 million and RMB678.0 million for the years ended December 31, 2021, 2022 and 2023, representing approximately 41.0%, 32.9% and 33.1% of our total purchase amount for the corresponding years, respectively. The gross profit margin of the sales to the Overlapping Customers and Suppliers were approximately 39.3%, 14.1% and 15.7% for the years ended December 31, 2021, 2022 and 2023, respectively, whereas our overall gross profit margin for the corresponding years were approximately 22.9%, 22.3% and 12.3%, respectively. Specifically, the gross profit margin of the sales to Distributor A was 39.3%, 14.1% and 15.7% for the years ended December 31, 2021, 2022 and 2023, respectively. The gross profit margin of sales to Hebei Kangshi were 14.1% and 18.9% for the year ended December 31, 2022 and 2023, respectively. In 2021, we did not sell products to Hebei Kangshi. In 2022, the gross profit margin of our sales to Distributor A decreased to 14.1% and slightly increased to 15.7% in 2023. The decreases in gross profit margin for Distributor A compared to 2021 were primarily due to the adoption of pricing strategy of lowering our toluene oxidation product price to ensure our sales volume with Distributor A, which lowered our profit margin. This approach aligns with our Group's overall pricing strategy. Fluctuations in the gross profit margin of sales to the Overlapping Customers and Suppliers during the Track Record Period were primarily due to the changes in the gross profit margin of our sales to Distributor A.

Negotiations of the terms of our sales to and purchases from these Overlapping Customers and Suppliers were conducted on an individual basis and the sales and purchases were neither inter-connected or inter-conditional with each other. These sales and purchases were solely determined by the demand of the Overlapping Customers and Suppliers and based on their own business judgment, which were conducted in the ordinary course of business under normal commercial terms. In addition, according to the Frost & Sullivan Report, it is a common industry practice for customers and suppliers in the chemical industry to source raw materials from each other in order to manage market fluctuations with more flexibility. Our Directors confirmed that all of our sales to and purchases from the Overlapping Customers and Suppliers were conducted in the ordinary course of business under normal commercial terms and on an arm's length basis with pricing and other terms of the transactions in comparable terms as our transactions with other customers and suppliers purchasing or selling the same type of products in similar quantities. Our Directors further confirmed, and Frost & Sullivan concurs, that the terms of these transactions were in line with industry practice. To the best knowledge and belief of our Directors, except for Hebei Kangshi, a joint venture of our Group, all of the Overlapping Customers and Suppliers and their ultimate beneficial owners are Independent Third Parties. Our Directors also confirmed that, to their best knowledge, except for Hebei Kangshi, a joint venture of our Group, and other than the business relationship with respect to our Group's core business, none of our Company or any of our subsidiaries, shareholders, directors, or respective associates had any past or present relationship, including business, financial, employment, or otherwise, with any of our Overlapping Customers and Suppliers during the Track Record Period and up to the Latest Practicable Date.

PRODUCTION PLANTS

We employ a centralized strategy and conduct our production in our advanced production facilities in Wuhan and Qianjiang, Hubei Province to ensure quality control and quality assurance.

During the Track Record Period, we operated two self-owned production plants located in Wuhan and Qianjiang, Hubei Province through our wholly-owned subsidiaries. Our Wuhan Production Plant and Qianjiang Xinyihong Production Plant have an aggregate site area of 326,618.9 sq.m. and an aggregate gross floor area of 78,256.0 sq.m.. Our production plants are designed for the production of designated products with built-in flexibility. For more details of the land parcels and buildings of our production facilities, please refer to "— Properties" in this section.

The table below sets forth further information on our production plants as of the Latest Practicable Date:

Our production plants	Year of commencement of commercial production of the first workshop	Total site area	Aggregate gross floor area	Principal products produced as of the Latest Practicable Date
		(sq. m.)	*(sq. m.)*	
Wuhan Production Plant	2015	249,038.2	65,896.1	Benzoic acid, sodium benzoate, benzoguanamine, benzonitrile, benzaldehyde, benzyl benzoate, and chlorohydrin rubber
Qianjiang Xinyihong Production Plant	2009	77,580.7	12,359.9	Xylene products, benzyl chloride, and benzyl alcohol
Total		**326,618.9**	**78,256.0**	

Production Capacity and Utilization Rates

The following table sets forth the designed production capacity, production volume and utilization rate of our manufacturing facilities at our Wuhan Production Plant and Qianjiang Xinyihong Production Plant during the Track Record Period:

	Year ended December 31,		
	2021	2022	2023
Wuhan Production Plant			
Designed Production Capacity$^{(1)}$ (tons)	302,500	302,500	302,500
Actual Production Volume$^{(2)}$ (tons)	309,683	371,579	314,679
Utilization Rate$^{(3)}$ (%)	102.4%	122.8%	104.0%
Qianjiang Xinyihong Production Plant			
Designed Production Capacity$^{(1)}$ (tons)	144,040	144,040	144,040
Actual Production Volume$^{(2)}$ (tons)	132,190	132,050	124,414
Utilization Rate$^{(3)}$ (%)	91.8%	91.7%	86.4%

Notes:

(1) The designed production capacity figures are calculated based on a number of assumptions, including the operation hours. The figures for the years ended December 31, 2021, 2022 and 2023 are based on the assumption that each production plant operates approximately 8,000 hours (i.e., 330 days per year). The designed production capacity is calculated with reference to (i) the annual production capacity of our Group's production equipment as designated by the equipment manufacturers and (ii) the registration documents our Group filed with the PRC authorities for our production facilities.

(2) Actual production volume is the actual number of products manufactured by our Group for the indicated period, including self-produced products and those used as raw material for other self-produced products. As certain portion of self-produced products was used as raw materials for the manufacturing of our Group's other self-produced products, our Group's production volume may exceed the sales volume of our self-produced products during the Track Record Period.

(3) The utilization rate is calculated based on the actual production volume (with self-produced products that used as raw materials for our downstream products calculated in) divided by the designed production capacity in the relevant year multiplied by 100%. Our actual production volume may exceed the designed production capacity, which leads to utilization rates exceeding 100% due to (i) certain self-produced products manufactured by our Group can be sold as a final product or can be further refined for the production of refined products of the same category, and (ii) technical improvements were adopted in our manufacturing process which enable our actual production volume to exceed certain designed production capacity. According to the PRC Legal Advisors of our Group, only production volume of the end products is relevant for the assessment of our compliance with the production volume limit approved in the relevant registration documents that filed with the PRC authorities, but not the production volume used in the calculation of the utilisation rate. Therefore, provided that the production volume of the end products during the Track Record Period is within the production volume limit approved in the relevant registration documents that filed with the PRC authorities, our manufacturing operation complies with the relevant laws and regulations in the PRC. According to Frost & Sullivan, based on public information disclosed by listed companies, it is a common situation for manufacturing companies to operate with a utilization rate exceeding 100%.

The following table sets forth the utilization rate of the Group's manufacturing facilities by products during the Track Record Period:

	Year ended December 31,		
	2021	**2022**	**2023**
Toluene oxidation products	103.2%	125.3%	105.7%
Toluene chlorination products	84.0%	83.5%	78.5%
Benzoic acid ammonification products	74.5%	68.6%	59.1%
Other fine chemical products	52.2%	48.8%	44.7%

During the Track Record Period, Wuhan Production Plant operated with a utilization rate exceeding 100% in 2021, 2022 and 2023. From regulatory perspective, the output volumes of end products are within the production volume limit approved in the relevant registration documents that filed with the PRC authorities. According to the PRC Legal Advisors of our Group, provided that the production volume is within the production volume limit approved in the relevant registration documents that filed with the PRC authorities, our manufacturing operation complies with the relevant laws and regulations in the PRC. We will continue to adhere to this practice to ensure future operational and production compliance with the relevant laws and regulations of the governing authorities of the PRC.

Utilization rates of our production plants

There are various factors affecting the utilization levels of our production plants. These factors include the quality, supply and timely delivery of raw materials, the level of our inventory, and any scheduled inspections and repairs and maintenance for our production plants and testing and commissioning works required prior to the commencement of production of each type of our principal products.

We have improved the automation level in our production process. Our current production facilities comprise automated plant and machinery, and have been designed and installed to suit our production needs. As part of our routine maintenance, we regularly monitor our production facilities and equipment, and upgrade the production process to enhance our production efficiency. Our in-house research and development teams collaborate with our production equipment suppliers in the design of our production facilities for continuous improvements to our production process.

In order to maximize the utilization level of our production plants, we have adopted a comprehensive maintenance system, which includes scheduled downtimes for maintenance and repairs and regular inspections. As of the Latest Practicable Date, our repairs and maintenance team consisted of 33 employees under our production department. We carry out routine daily cleaning and maintenance of our production facilities to extend their useful lives. Our production plants and equipment are subject to different maintenance schedules and downtime periods. We maximize our production capacity by scheduling major maintenance works during holiday seasons, and the Chinese New Year holiday in particular, not exceeding 40 days on average for each year. We did not experience any material or prolonged interruptions or unexpected suspension to our production process due to failure in our production facilities during the Track Record Period.

Major Production Machinery and Equipment

We purchase our major production machinery and equipment from reputable domestic and overseas suppliers. As at the Latest Practicable Date, all machinery and equipment material to our production process at our production plants in operation were owned by us. The following table sets out further information on our major types of machinery and equipment as of the Latest Practicable Date:

Types of machinery/equipment	Principal usage or function
Oxidation tower	Toluene oxidation reactor
Distillation tower	Benzoic acid rectifying and separating tower
Crystallization tower	Purification device of benzoic acid
Roller scraper	Materials scraper
Automatic packaging line	Packaging line of benzoic acid
Centrifugal air compressor	Providing compressed air
Nickel tower	Benzyl chloride rectifying and separating tower
Enamel reaction kettle	Toluene chlorination reaction kettle
Graphite heat exchanger	Condenser
Mechanical vapor recompression	Benzyl alcohol wastewater treatment device

Our principal facilities and machinery generally have useful lives of around 10 to 30 years, and these useful lives may be extended for a longer period if they are under proper repair and maintenance. We believe that our production facilities are well-maintained and are in good operating condition, and none of our production facilities, or the production technology involved, is obsolete or outdated. We have implemented standardized procedures and guidelines for the operation, management, and maintenance of our production facilities. We carry out regular inspections and assessments of the condition of our production facilities and conduct regular repair and maintenance. We estimate that the average remaining useful lives of our production facilities are generally over ten years.

BUSINESS COOPERATION WITH MAJOR MARKET PARTICIPANTS

In-depth Cooperation and Development

In addition to allocating significant resources to enhance and expand our in-house production capacity, we also aim to establish strategic partnerships with reputable companies in the PRC and overseas to explore joint-development opportunities to strengthen our industry leading position, develop our presence in strategic regions and sustain our long-term economy of scale and profitability.

Cooperation with a prominent Thailand company

With the goal to expand our overseas sales and to maintain greater capability to adjust to market fluctuations through establishing alternative production facilities in different countries, on March 25, 2019, we entered into a memorandum of understanding with Company Y to jointly build and operate a manufacturing plant based in Rayong, Thailand (the "**Thailand MOU**"). Company Y is a public company listed on the Stock Exchange of Thailand and a prominent chemical derivative product manufacturer in Southeast Asia.

Under the arrangement contemplated by the Thailand MOU, we and Company Y will establish a joint-venture to conduct business operation where each party holds 50% of shareholding interests. We will provide the process design package, license the necessary technology and share market experience and information of benzoic acid and its derivatives, and Company Y will provide land, utility and labor resource for the joint venture to operate the manufacturing plant and secure the supply of toluene material for the production of benzoic acid and its derivatives. As intended under our collaboration, we aim to expand our brand and operations in this strategic region with significant growth potential by leveraging our technical know-how and market experience while utilizing Company Y's strong local presence, assets and existing network.

On October 10, 2022, we entered into an Extension Agreement of the Thailand MOU with Company Y, which the parties agreed to extend the Thailand MOU for an additional three years, commencing retroactively from March 25, 2021 to March 24, 2024. On March 20, 2024, we further extended the Thailand MOU with Company Y for another three years so that the Thailand MOU will remain effective until March 24, 2027. As of the Latest Practicable Date, the plan remained in the preliminary stage, and no definitive agreement has been entered into between Company Y and us. The decision to proceed with the construction of the Thailand Production Plant will be contingent upon the timing of the future improvement of the chemical industry environment and consensus is reached with Company Y, and we will take into account the industry environment at the relevant time in considering the timing of the construction of the Thailand Production Plant.

Cooperation with SINOPEC

To solidify our manufacturing capacity in China and to expand our clientele, we have entered into a cooperation agreement on December 18, 2018 with SINOPEC (the "**Kangshi Cooperation Agreement**") to establish Hebei Kangshi, our joint venture in Shijiazhuang, Hebei Province. SINOPEC is one of the largest suppliers of petroleum toluene and a major industry participant in China. Pursuant to the Kangshi Cooperation Agreement, (i) Hebei Kangshi will primarily focus on the research and development, manufacture and sales of the toluene oxidation and its downstream products; (ii) our Company and SINOPEC own 51% and 49% shareholding interests in Hebei Kangshi, respectively, which is in proportion to the respective investment amount, and the parties paid the full investment amount in 2019; (iii) Hebei Kangshi is entitled to use to our proprietary "XINKANG (新康牌)" trademark and our technologies for the upgrade of benzoic acid and the manufacturing of sodium benzoate; and (iv) our Company is obligated to share our sales network with Hebei Kangshi to sell its products, and SINOPEC is responsible for the provision of raw material supply of petroleum toluene for Hebei Kangshi's production. We believe our in-depth cooperation with SINOPEC ensures that we will have stable access to the supply needed for the manufacturing of our products and create long-term demand for our products, and this business synergy will further sustain our long-term business development and results of operations.

Hebei Kangshi Production Plant

The Hebei Kangshi Production Plant is owned and operated by Hebei Kangshi, a joint venture of our Group. Hebei Kangshi obtained the Working Permit on Construction Works (建築工程施工許可證) for the Hebei Kangshi Production Plant on September 29, 2020. Hebei Kangshi has completed construction of Hebei Kangshi Production Plant, which has a designed annual production capacity of approximately 60,000 tons of industrial-grade benzoic acid, 15,000 tons of sodium benzoate, 2,000 tons of benzaldehyde and 2,000 tons of benzyl benzoate. The Hebei Kangshi Production Plant commenced production in January 2023.

Upon commencement of production of Hebei Kangshi, we entered into several sales and purchase agreements to purchase products from Hebei Kangshi. These agreements were entered into based on arms-length negotiation, where the pricing is with reference to the listed price of similar products of SINOPEC and generally provide that we shall pick up the products at the warehouse of Hebei Kangshi, and Hebei Kangshi shall guarantee that its products comply with the respective national/industrial standards. The Hebei Kangshi Production Plant is designed to focus on the production of toluene oxidation derivative products. We were not obligated to purchase all products manufactured by Hebei Kangshi but we strategically prioritized sourcing these products from Hebei Kangshi over other suppliers to better serve the customers in the northern China market, where the Hebei Kangshi Production Plant is located.

In September 2023, to secure the production capacity of Hebei Kangshi and to sell the products under our Xinkang brand so that we can leverage the established brand and cost advantages to compete with competitors in northern China and capture market share, we changed the cooperation model and entered into an entrusted processing service agreement with Hebei Kangshi. The entrusted processing service agreement expires on June 30, 2024, subject to renewal upon mutual consent of Hebei Kangshi and us. We intend to renew the entrusted processing service agreement with Hebei Kangshi upon expiry. The principal commercial terms of the entrusted processing service agreement are summarized as follows:

Service scope: We supply raw materials to Hebei Kangshi, while Hebei Kangshi provides entrusted processing services by processing these raw materials on our behalf to produce benzoic acid, benzaldehyde, benzyl benzoate and sodium benzoate, and deliver the products to us.

Service fee: The service fee charged by Hebei Kangshi is determined pursuant to a formula that takes into consideration of various factors, including the amount of raw materials supplied, packing costs, and other adjustments.

Minimum production volume: 4,000 tons per month.

For the year ended December 31, 2023, the revenue generated from our sales of products manufactured by Hebei Kangshi was RMB215.1 million, representing 8.0% of our total revenue for the same year. The products manufactured by Hebei Kangshi were low-end toluene oxidation products, and our gross profit margin for the sales of which was 4.9% in 2023.

PRODUCTION EXPANSION PLAN

The following table sets forth certain information regarding our planned production facilities that are currently under development:

Production facility	Phase	Actual construction date	Expected capital expenditure(1) use of proceeds	Expected capital expenditure(1) internal resources	Expected payback years since production(2)
			(RMB'million)		
Hubei Xinxuanhong Production Plant	Phase I	July 2023	11.9	188.1	3
	Phase II	N/A(3)	27.8	522.2	6.9
Total			**39.7**	**710.3**	

Notes:

(1) expected to be financed by a combination of IPO proceeds and internal resources, and is expected to be incurred over the construction period up to 2029. As of December 31, 2023, we had incurred capital expenditures of RMB55.1 million for the construction of Hubei Xinxuanhong Production Plant.

(2) derived from the feasibility study report for the respective production plant, which was primarily calculated by the estimated total investment amount divided by the expected annual profit.

(3) The Phase II construction is expected to commence in the second half of 2025.

Product type and expected timeframe of our production expansion plan

To expand the production capacity of our production facilities for the manufacturing of existing and new products in Qianjiang, we established a wholly-owned subsidiary, Hubei Xinxuanhong, in Qianjiang, Hubei Province. The construction of our Hubei Xinxuanhong Production Plant started in July 2023 with a designed annual production capacity of approximately 100,000 tons of benzyl chloride, 50,000 tons of benzyl alcohol and 150,000 tons of other fine chemical products including new products such as vinylene carbonate. Additional production capacity is considered necessary considering the significant growth in sales volume of benzyl alcohol (a downstream product of benzyl chloride) and other fine chemicals during the Track Record Period from 32,819 tons and 28,296 tons in 2021 to 36,436 tons and 56,102 tons in 2023, despite the downturn of the chemical industry in 2023. The project is divided into two phases, and the total investment is expected to be RMB750.0 million. We expect Phase I and Phase II of the Hubei Xinxuanhong Production Plant to commence production in the second half of 2024 and the second half of 2026, respectively. For details, please refer to "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus.

The Phase II of Hubei Xinxuanhong Production Plant will be developed in stages commencing from the second half of 2025 and up to 2029, with additional production capacity added to accommodate the continuous growth in the industry. The construction of the Hubei Xinxuanhong Production Plant is essential for the future development of our Group considering the relatively high utilization rates of both the Wuhan Production Plant and Qianjiang Xiyihong Production Plant during the Track Record Period. In particular, despite the challenges faced by the chemical industry in 2023, the utilization rates of these two production plants remained notably high at 104.0% and 86.4%, respectively.

The Hubei Xinxuanhong Production Plant will expand our production capacities in toluene chlorination products and other fine chemical products, which have good market potential both globally and also in the PRC. According to Frost & Sullivan, the sales revenue of benzyl alcohol globally and in the PRC is estimated to grow by 55.2% and 66.2%, respectively, from 2023 to 2028. Assuming the capacity utilization rate is maintained at the current level, there will be sufficient market demand for the additional production capacity of both benzyl alcohol and benzyl chloride in the Hubei Xinxuanhong Production Plant. Additionally, the diversified product types of our Hubei Xinxuanhong Production Plant also integrate with our existing product offerings, enabling us to capture the growing demands for other fine chemical products.

Furthermore, the structural adjustment of the global and PRC toluene and toluene derivative products markets, characterized by a general shift in sales toward leading Chinese manufacturers and the withdrawal of small and medium-sized manufacturers from the industry, along with a decrease in the output and production capacity utilization rate of overseas manufacturers observed in 2023, is expected to continue in 2024. This trend benefits us as a leading top-ranked toluene oxidation and toluene chlorination products provider in the PRC and the global market, allowing us to capture additional market share. Our Hubei Xinxuanhong Production Plant is strategically aligned with these market dynamics.

Designed annual production capacity for our major products before and after production expansion plan

During the Track Record Period, we operated two production plants, the Wuhan Production Plant and the Qianjiang Xinyihong Production Plant and our joint venture operated the Hebei Kangshi Production Plant. We also plan to expand our production capacity through the establishment of Hubei Xinxuanhong Production Plant. The following table sets forth the designed annual production capacity of the production facilities operated by our subsidiaries for our major products before and after our production expansion plan:

	As of December 31,		As of December 31,								
	2023		2024			2025			2026		
	Wuhan Production Plant(2)	Qianjiang Xinyihong Production Plant(2)	Wuhan Production Plant(2)	Qianjiang Xinyihong Production Plant(2)	Hubei Xinxuanhong Production Plant(3)	Wuhan Production Plant(2)	Qianjiang Xinyihong Production Plant(2)	Hubei Xinxuanhong Production Plant(3)	Wuhan Production Plant(2)	Qianjiang Xinyihong Production Plant(2)	Hubei Xinxuanhong Production Plant(3)
	(tons)				*(tons)*						
Toluene oxidation products											
– benzoic acid	200,000	–	200,000	–	–	200,000	–	–	200,000	–	–
– sodium benzoate	65,000	–	65,000	–	–	65,000	–	–	65,000		
– others	12,000	–	12,000	–	–	12,000	–	–	12,000	–	–
Toluene chlorination products											
– benzyl chloride	–	74,000	–	74,000	–	–	74,000	–	–	74,000	50,000
– benzyl alcohol	–	60,000	–	60,000	–	–	60,000	–	–	60,000	–
Benzoic acid ammonification products											
– benzonitrile	10,000	–	10,000	–	–	10,000	–	–	10,000	–	–
– benzoguanamine	5,000	–	5,000	–	–	5,000	–	–	5,000	–	–
Other fine chemical products	10,500	10,040	10,500	10,040	40,000	10,500	10,040	40,000	10,500	10,040	40,000
Subtotal	**302,500**	**144,040**	**302,500**	**144,040**	**40,000**	**302,500**	**144,040**	**40,000**	**302,500**	**144,040**	**90,000**
Designed Annual Production Capacity(1)		**446,540**			**486,540**			**486,540**			**536,540**

Notes:

(1) The designed annual production capacity figures are calculated based on a number of assumptions, including the assumption that each production plant operates approximately 8,000 hours per year.

(2) Wuhan Production Plant and Qianjiang Xinyihong Production Plant are not under our "Production Expansion Plan".

(3) The Hubei Xinxuanhong Production Plant will be developed in phases up to 2029. The Phase I production is expected to begin in the second half of 2024 with a designed production capacity of 40,000 tons, which include approximately 10,000 tons of benzyl acetate, 20,000 tons of benzyltoluene and 10,000 tons of dibenzylamine. The Phase II production is expected to commence in the second half of 2026, with the remaining production capacity being developed and put into use in stages up to 2029. The designed annual production capacity includes approximately 100,000 tons of benzyl chloride, 40,000 tons of benzotrichloride, 40,000 tons of benzoyl chloride, 50,000 tons of benzyl alcohol, 10,000 tons of benzyl acetate and 20,000 tons of dibenzylamine. It is anticipated that the total designed annual production capacity will be up to 300,000 tons by 2029.

In addition, as at the Latest Practicable Date, our joint venture operated the Hebei Kangshi Production Plant, which has a designed annual production capacity mainly includes approximately 60,000 tons of industrial-grade benzoic acid, 15,000 tons of sodium benzoate, 2,000 tons of benzaldehyde and 2,000 tons of benzyl benzoate. The Hebei Kangshi Production Plant commenced production in January 2023.

Planned total investment costs

The following tables set out the breakdown of our total investment costs incurred or expected to be incurred in connection with the establishment and expansion of our self-owned production facilities:

Hubei Xinxuanhong Production Plant

Items	**Amount**	
	Phase I	**Phase II**
	(RMB'000)	
Construction fees	62,500	151,100
Acquisition of machinery and equipment	123,300	169,800
Labor costs and related training costs	5,000	60,100
Miscellaneous costs[(1)]	9,200	169,000
Total	200,000	550,000

Note:

(1) mainly include construction management fees, design fees and supervision fees.

We plan to finance the establishment of our new production facilities with the net proceeds from the Global Offering and internal resources. As of December 31, 2023, we had incurred capital expenditures of RMB55.1 million for the construction of our Hubei Xinxuanhong Production Plant. For details on the use of proceeds in these production plants, please refer to "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus.

Considerations when determining our production expansion plan

Our Directors have determined our production expansion plan based on a number of considerations, primarily including: (i) whether there is high market demand and future growth potentiality in these areas; (ii) whether our technological advantages are duplicable and sustainable in the new market; (iii) whether we have a comprehensive understanding of the business and financial conditions of existing competitors in the potential market; (iv) whether the macro-economic condition is feasible and suitable to conduct business; (v) whether our financial position enables us to execute the business expansion plan; and (vi) whether the new production plant is capable of elevating our internal market presence and sustain the market fluctuation.

Based on the above, our Directors believe that our production expansion plan is feasible, and there is sufficient demand for our products in support of our production expansion plan.

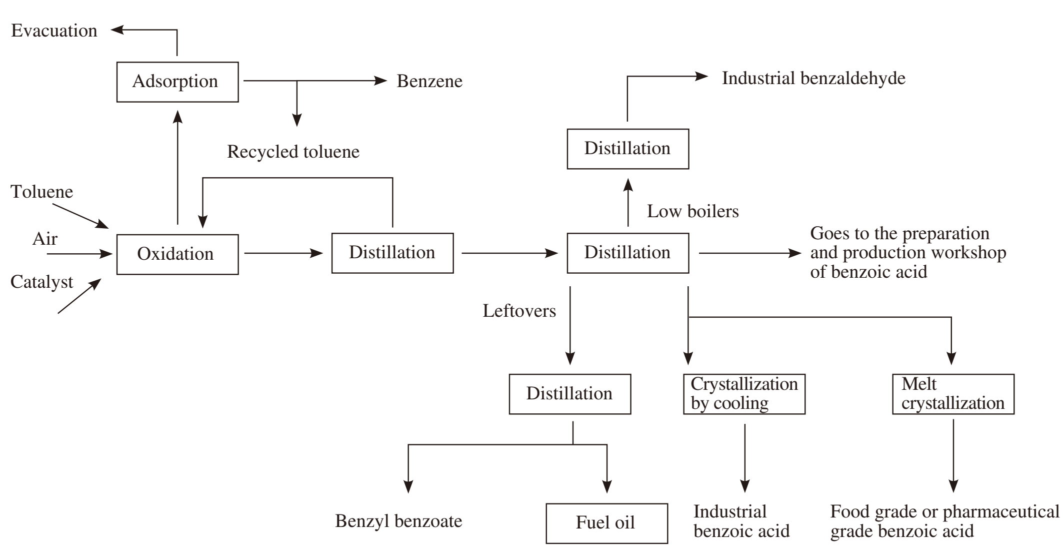
PRODUCTION PROCESS

Pre-production Preparation

Upon confirmation of sales order by our customers, our sales department delivers an information sheet containing the graphic images of the products, design and packing specifications and any special requirements requested by our customers, and the final sample approved by our customers to our production department. Our production department is responsible for carrying out the technical preparation works, which begin with the mapping of the production flow and determining the amount and types of raw materials required. Upon completion of all pre-production preparation, our production department will commence the production process.

Production Process

The production process varies depending on the type of product manufactured. The diagram below illustrates the major production processes for our products:



Further details on the various major production steps involved in our production processes are set out below:

Raw material inspection and testing

The incoming raw materials are fully inspected and tested upon delivery according to our quality control requirements and specifications. Raw materials are only stored in our warehouses after they have passed the quality control tests. Solvents that have passed our quality control tests are transported through a tanker pipeline system and pumped into storage tanks for use.

Main production process

Oxidation: toluene, air and catalyst enter the oxidation process in a certain proportion, and the oxidation reaction occurs under the actions of high temperature, high pressure and catalyst to generate benzaldehyde, benzyl alcohol, benzoic acid, benzyl benzoate and other aromatic compounds. This process generally takes approximately four to five hours to complete.

Distillation: the reaction solution in the oxidation process is distilled to remove unreacted toluene. The removed toluene is returned to the oxidation process to undergo the oxidation reaction again, and the tower still liquid is pumped into the next distillation process.

Crystallization by cooling (for the benzoic acid): the liquid benzoic acid is converted from liquid to solid benzoic acid after cooling. The distillation and crystallization by cooling process generally take about one hour to complete.

Melt crystallization (for the benzoic acid): liquid benzoic acid is further purified by the melt crystallization process to remove traces of impurities and produce high-quality benzoic acid. The distillation and melt crystallization process generally take approximately three hours to complete.

Inspection and packaging

Semi-finished products which were grounded, mixed, dispersed, cooled, filtered and filled are thoroughly inspected to make sure they meet our quality standards and other product specifications such as color, density, level of dispersion, texture, adhesivity and level of water content. After passing our quality control inspection, the semi-finished products are poured into labeled cans or buckets, sealed, packed and transported to our warehouses for storage pending delivery to our customers.

QUALITY MANAGEMENT

We have established our quality control system in accordance with the industry standards and the requirements of the relevant certification authorities, and have implemented quality control measures throughout our production process. Our quality management department consisted of a quality management team and an inspection team with four and 18 employees, respectively, as of the Latest Practicable Date. Our quality management department's core team members hold bachelor's degrees or above, with extensive technical work experience, and are familiar with our production process. Our quality management team is responsible for the management and maintenance of our quality control system, including designing quality control standards and policies, organizing monthly quality control meetings, implementing quality improvement measures and participating in various quality assessment events. In addition, our quality management department is in charge of supplier review and assessment and contract review from the quality control perspective. Our inspection team is responsible for the inspection of raw materials, finished products, intermediates and packaging materials to ensure compliance with relevant quality management requirements. Our inspection team reports to our management regularly regarding product quality. Members of our production team and quality management team are required to acquire relevant knowledge and training in relation to the production and product assessment for quality control.

Quality standards and certificates

During the Track Record Period and up to the Latest Practicable Date, our operations had not been inspected or penalized by government authorities for noncompliance with relevant PRC laws and regulations of quality. We are also subject to annual inspection by the relevant government authorities. Our quality control system has received various domestic international quality management certifications, including ISO 22000, ISO 9001, FSSC 22000, FAMI-QS, BRC, KOSHER, HALAL and GMP for quality control standards. We received these certifications by applying for and passing the relevant documentary and on-site inspections by independent accreditation bodies. These certifications are subject to independent audits by the relevant accreditation bodies.

ISO 9001:2015

ISO 9001:2015 specifies requirements for quality management system pursuant to organization needs to demonstrate its ability to consistently provide products that can meet customer demand and applicable statutory and regulatory requirements, and aims to enhance customer satisfaction through the effective application of the system, including continual improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.

Our quality management systems with respect to our Wuhan Production Plant and our Qianjiang Xinyihong Production Plant were certified in conformity to ISO 9001:2015 standard effective from March 5, 2021 to March 11, 2024 and April 29, 2021 to March 8, 2024, respectively.

ISO22000:2018

ISO 22000:2018 specifies the requirements for food safety management system to control food safety in order to ensure that the quality of food is safe for consumption.

Our Wuhan Production Plant was certified in conformity to ISO 22000:2018 from April 5, 2022 to April 4, 2025.

Quality certifications

The table below sets forth the major certifications or licenses we have obtained for our products and production facilities:

Production plant	Date of issue	Expiry date[1]	Detailed information
ISO 22000:2018 Food Safety Management System Certification: issued by Intertek Certification Limited			
Wuhan Production Plant	April 5, 2022	April 4, 2025	Food safety management system for manufacturers
ISO 9001:2015 Quality Management System Certification: issued by China Quality Certification Center			
Wuhan Production Plant	February 18, 2024	March 11, 2027	Quality management system for design, production and sales
Qianjiang Xinyihong Production Plant	February 4, 2024	March 8, 2027	Quality management system for design, production and sales
FSSC 22000 Food Safety Management System: issued by Intertek Certification Limited			
Wuhan Production Plant	April 5, 2022	April 4, 2025	Food safety management system
FAMI-QS Certification: issued by SGS			
Wuhan Production Plant	August 24, 2023	August 23, 2026	Certification for the production of special ingredients for animal feeds
BRC: issued by SGS			
Wuhan Production Plant	July 27, 2023	August 17, 2024	Food safety standard
KOSHER: issued by KOF-K Kosher Certification			
Qianjiang Xinyihong Production Plant	January 25, 2024	January 31, 2025	Certification for food that conforms to regulations of Jewish religious dietary laws
HALAL (ARA): issued by LPPOM MUI			
Qianjiang Xinyihong Production Plant	December 7, 2022	December 6, 2026	Certification of permissible food under traditional Islamic law

Production plant	Date of issue	Expiry date[(1)]	Detailed information
GMP Certification: issued by Hubei Food and Medical Products Administration			
Wuhan Production Plant	July 17, 2017	July 17, 2022[(2)]	Raw materials (benzoic acid, sodium benzoate) have been reviewed and found to be in compliance with the Quality Management Requirements for Pharmaceutical Production (《藥品生產質量管理規範》) of the People's Republic of China

Notes:

(1) We will apply for renewal of these certificates and licenses when they are near expiration in accordance with the respective renewal requirements. We do not anticipate that there is any legal impediment for the renewal as of the date of this prospectus.

(2) From December 1, 2019, the PRC government has cancelled GMP Certification under the relevant laws and regulations.

Quality control on the sourcing of raw materials

We have adopted a quality control system for raw materials to oversee and manage the sample inspection and testing of raw materials delivered to our production plants. Our storage management department and inspection department are required to issue various reports and documents as written records for quality inspection to be reviewed and archived by other departments, including the supply department and production management department. For raw materials that have a greater impact on our product quality, we also require our production plants to conduct a trial use when these materials are supplied to us for the first time. If a batch of raw materials cannot pass our inspection and testing process, they are marked as unqualified and handled according to our control procedures for unqualified materials.

We have adopted and maintained a set of procedures to manage and assess our suppliers. We select our suppliers taking into account their pricing level, qualifications, production capacity, delivery term, quality control and production facilities. We also evaluate the performance of our suppliers annually according to our evaluation procedures. We will cease procurement from suppliers who fail to meet our criteria and remove these suppliers from our procurement list.

Quality control on the production process

Our production department is responsible for creating and executing our monthly production plans. Our production plants operate in accordance with our standard operation procedures. Our production personnel control the process to meet the specified parameters and maintain written records for their operational duties. During the production process, we apply and adhere to industry standards and certification requirements to ensure our product quality.

Each stage of our production is closely monitored by our quality control staff. Our quality control team is responsible for ensuring our staff follow our guidelines on production procedures and that our products meet the quality, hygiene and food safety standards of our internal guidelines and the requirements and standards in the PRC and other countries our products are exported to. Each batch of our finished products is tested on a sampling basis and is inspected to ensure that they have proper and accurate labeling, and have met the relevant quality standards and product specifications.

In addition, we dispose and monitor production wastes in compliance with relevant laws and regulations. All our employees are required to follow designated sanitizing procedures, wear caps, uniforms, gloves and overshoes before they are allowed to enter our production facilities.

Quality control on packaging and transportation

We have specific operation procedures for product packaging and transportation. Product packaging should meet the requirements of relevant national standards. Our packaging containers are required to have anti-contamination features and meet various hygiene standards. Products contaminated due to improper storage or transportation are handled as scrap and cannot be reused.

Response to customers' complaints and feedbacks

Our sales department is responsible for communication with customers and the handling of customer requests. Upon receipt of customer complaints, our sales department directs these complaints or feedbacks to the quality management department for investigation. We make plans and keep records for corrective or preventative measures. General corrective measures are usually completed within one month and long-term action plans are completed in three months to prevent recurrence of similar incidents in the future.

Product return policy

We accept return for any defective products, and returned products are handled differently according to the cause of return. During the Track Record Period, there was no product returns due to product defects or otherwise, which could have a material adverse impact on our business operations. For the risk of potential product liability to which we may be exposed, please refer to "Risk Factors — Risks Relating to Our Business — We may not be able to maintain effective quality control and may be subject to product liability claims which could have a material adverse impact on our reputation, business and financial condition, and operating results" in this prospectus.

INVENTORY MANAGEMENT

Our inventory consists mainly of finished products, raw materials and packing materials. We have adopted and implemented various policies and control procedures to manage and protect our inventories. For example, we require raw materials to be stored at different storage zones based on their categories. We strictly monitor storage conditions such as temperature and humidity, and implement fire prevention measures.

We conduct our monthly procurement planning in conjunction with our monthly production plan and inventory level. Upon receiving orders from our customers, we arrange for production based on order terms and our inventory of finished products. In addition, by leveraging our leading position and profound experience in the industry, we can seek opportunities to stock up our inventories from other manufacturers through our products trading business at a relatively low price and further enhance the flexibility of our inventory management to ensure manufacturing continuity.

We conduct annual maintenance at our Wuhan Production Plant and Qianjiang Xinyihong Production Plant during the Track Record Period, which usually lasts for one month to one and a half months. During this maintenance period, we temporarily suspend our production but sales and operations continue in reliance of our product inventory. The inventory turnover rates for our Wuhan Production Plant were 14.2, 9.2 and 8.1 for the years ended December 31, 2021, 2022 and 2023, respectively. For the same periods, the inventory turnover rates for our Qianjiang Xinyihong Production Plant were 8.1, 9.5 and 12.0, respectively.

RESEARCH AND DEVELOPMENT

We place great emphasis on research and development to strengthen our industry competitiveness and to improve and diversify our products. As of the Latest Practicable Date, we had established a product research center at our Wuhan Production Plant, and have research and development team members based at each of our production plants. Our research and development experts are devoted to our product development and assigned into three focus areas: (i) technical research institute, which is responsible for the research and development of future products; (ii) technical center, which is responsible for the improvement of existing product processes and equipment; and (iii) multi-facet cooperative research institutes, which provide technical support and new product suggestions. As of the Latest Practicable Date, we had an aggregate of 139 research and development team members, including 24 research and development experts. Our product research and development efforts are currently led by Mr. Zou Xiaohong, our executive Director and one of our senior management team members.

Our product research and development team focuses on (i) improving existing production processes to increase production efficiency and decrease production costs; (ii) research and development of new products and designing new solutions and formulas; (iii) providing solutions to technical difficulties arising from the production process; (iv) gathering market intelligence and closely monitoring the technological trends in our industry in the PRC and globally; and (v) developing accurate measurements of raw materials and devising formulas or specifications for production.

Our product research and development team works closely with our production team to optimize the production process to enhance product quality and production efficiency. Our product research and development efforts primarily focus on keeping track of market trends and the changing needs and requirements of our customers in order to improve our products and product formulas. We focus our efforts on improving the quality and product formula of our products based on the feedback collected from our customers. We also endeavor to enhance the automation level of our production processes and improvement of our machinery and equipment to improve production efficiency.

We have participated in the preparation and the drafting of the PRC food safety national standards on food additive – benzoic acid (GB 1886.183-2016) and food additive – sodium benzoate (GB 1886.184-2016) published by the National Health and Family Planning Commission of the PRC (國家衛生和計劃生育委員會) in 2016, and the PRC chemical industry standards on benzyl chloride for industrial use (HG/T 2027). Our participations in the drafting of these mandates are a recognition of our research and development capability and allow us to be well positioned in the development of new products with different features for different applications in full compliance with the PRC national standards.

During the Track Record Period, we entered into cooperative agreements with several universities and institutions in China for joint research projects for the advancement in production and processing technologies as well as product development direction. We strive to leverage cooperation with third party institutions to accelerate our product research and development efforts. Pursuant to these cooperation agreements, (i) we are generally responsible for industrialization research of the products, and our partners are generally responsible for providing product synthesis formula and manufacturing route and (ii) we retain the ownership of all know-how, conceptual or detail designs resulting from these arrangements. We believe these research and development collaborations inspire us to develop new technological solutions related to the manufacture of our products and enhance our ability to explore new technology, know-how and skills, which we believe is crucial for a strong foundation for our in-house research and development team.

For the years ended December 31, 2021, 2022 and 2023, our research and development cost amounted to RMB110.8 million, RMB133.0 million and RMB100.0 million, respectively, which primarily included staff costs, article of consumption, depreciation and amortization.

LICENSES AND PERMITS

As advised by our PRC Legal Advisors, we had obtained all necessary licenses and permits for our business operations in the PRC in all material aspects as at the Latest Practicable Date. Our Directors confirm that we did not experience any material difficulties in obtaining and renewing these licenses and permits. Furthermore, our Directors are not aware of any circumstances that would significantly hinder or delay the renewal of our licenses and permits upon their expiration.

The following table sets forth the key governmental licenses and permits that are material to our business (apart from those pertaining to general business requirements):

Licenses/permits	Grant date	Expiry date
Wuhan Youji		
Work Safety License (安全生產許可證)	October 27, 2022	October 26, 2025
Permits for Trading in Hazardous Chemicals (危險化學品經營許可證)	August 1, 2023	July 31, 2026
Pollutant Discharge License (排污許可證)	August 18, 2023	August 17, 2028
Food Production License (食品生產許可證)	December 22, 2020	December 21, 2025
Feed Additive Production License (飼料添加劑生產許可證)	December 31, 2020	December 31, 2025
Drug Production License (藥品生產許可證)	November 18, 2020	November 17, 2025
Qianjiang Xinyihong		
National industrial Product Production License (全國工業產品生產許可證)	August 13, 2021	August 12, 2026
Work Safety License (安全生產許可證)(1)	July 19, 2021	July 18, 2024
Permits for Trading in Hazardous Chemicals (危險化學品經營許可證)	December 2, 2022	December 1, 2025
Pollutant Discharge License (排污許可證)	June 9, 2022	June 16, 2027
Food Production License (食品生產許可證)	February 17, 2020	February 16, 2025
Hubei Kangxin		
Permits for Trading in Hazardous Chemicals (危險化學品經營許可證)	August 28, 2023	September 2, 2026

Note:

(1) We have applied for the renewal of the license and we expect to complete it by early July 2024. Given that Qianjiang Xinyihong has never failed to renew its Work Safety License since its initial issuance in 2012, our Directors are of the view that there will not be any material difficulties in the renewal of the license.

INTELLECTUAL PROPERTY

We developed and maintained a number of patents and trademarks for our products, and sell and market our products under our proprietary trademarks. As at the Latest Practicable Date, we held two registered trademarks under our "XINKANG (新康牌)" brand in the PRC. As of the Latest Practicable Date, we also had 80 registered patents and 10 pending patent applications in the PRC. In addition, we had registered one domain name in the PRC for the material use of our business operations. For further details, please refer to "Appendix IV — Statutory and General Information — B. Further Information about Our Business — 2. Our Intellectual Property Rights" in this prospectus.

We believe protecting and enforcing our intellectual property rights are of significant importance to our business operations, reputation and branding. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. However, a number of proprietary know-how that is not patentable and processes for which patents are difficult to enforce are also important for us.

We have entered into confidential agreements with all of our senior management team members as well as research and development team members, which require these personnel to strictly comply with our confidentiality requirements. These agreements also require our employees to assign to us all of the inventions, designs and technologies developed in connection with their employment with us.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our intellectual property rights. It is difficult to monitor unauthorized use of technology and know-how. In addition, our competitors may independently develop technology and know-how similar to ours. Our precautions may not prevent misappropriation or infringement of our intellectual property. During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, we had not been subject to any material intellectual property claims which could have a material adverse effect on our business operations.

PROPERTIES

Self-Owned Properties

Land

Our corporate headquarters is located in Wuhan, China. As of the Latest Practicable Date, we owned five parcels of land of 475,761.4 sq.m. located in Wuhan and Qianjiang, Hubei Province. These parcels of land were obtained by us through land grant from the government for cash considerations, and are used for industrial purposes. As of the Latest Practicable Date, we had obtained the land use right certificates and legally owns our land parcels in the PRC. The following table sets forth the details of the parcels of land for which we had obtained the relevant land use right certificates as of the Latest Practicable Date:

No.	Land Use Right Owner	Description/Location	Gross Site Area	Expiry Date
			(sq.m.)	
1.	Wuhan Youji	No.1 Second Huagong Road, Hongshan District, Wuhan (武漢化學工業區化工二路1號) (the "**Parcel A**")	249,038.2	March 5, 2064
2.	Qianjiang Xinyihong	No. 1 Park Road, Jianghan Salt Chemical Industrial Park, Qianjiang (潛江市江漢鹽化工業園園區一路) (the "**Parcel B**")	58,452.7	January 3, 2058
3.	Qianjiang Xinyihong	No. 1 Park Road, Jianghan Salt Chemical Industrial Park, Qianjiang (潛江市江漢鹽化工業園園區一路)	19,128.0	September 17, 2068
4.	Hubei Xinxuanhong	East of East Road, Jianghan Salt Chemical Industrial Park, Qianjiang (潛江市江漢鹽化工業園園區東)	80,386.5	December 20, 2072
5.	Hubei Xinxuanhong	West of East Road, Jianghan Salt Chemical Industrial Park, Qianjiang (潛江市江漢鹽化工業園園區西)	68,756.0	December 20, 2072

As of the Latest Practicable Date, Parcel A and Parcel B were pledged to a commercial bank located in Wuhan, Hubei Province in the ordinary course of business of our Group. A portion of Parcel A with a gross site area of 9,506 sq.m. and the buildings on this site was leased to Wuhan Eastman Organic Chemical Co., Ltd. (武漢伊士曼有機化工有限公司), an associate of our Group which we hold 49% equity interests as of the Latest Practicable Date. As advised by our PRC Legal Advisors, except for restrictions on Parcel A and Parcel B due to the above-mentioned existing pledges and leases, we have legitimate ownership of our self-owned land parcels, and we are entitled to occupy, use, transfer, lease, create a mortgage on or by other means dispose of such land according to applicable laws.

Buildings

Buildings with Building Ownership Certificates

As of the Latest Practicable Date, we had building ownership certificates for six properties in the PRC with an aggregate gross floor area of 78,381.4 sq.m. These buildings are primarily used for product manufacturing, warehousing and office functions. The following table sets forth details of the buildings owned by our Group with building ownership certificates as of the Latest Practicable Date:

No.	Holder of Building Ownership Certificate	Description/Location	Gross Floor Area
			(sq.m.)
1.	Wuhan Youji	Building No. 3, No. 1 Second Huagong Road, Hongshan District (洪山區(武漢化學工業區)化工二路1棟3號) (the "**Building A**")	65,896.1
2.	Qianjiang Xinyihong	No. 1 Park Road, Jianghan Salt Chemical Industrial Park (潛江市江漢鹽化工業園園區一路) (the "**Building B**")	5,468.8
3.	Qianjiang Xinyihong	No. 1 Park Road, Jianghan Salt Chemical Industrial Park (潛江市江漢鹽化工業園園區一路)	1,178.2
4.	Qianjiang Xinyihong	No. 1 Park Road, Jianghan Salt Chemical Industrial Park (潛江市江漢鹽化工業園園區一路)	3,929.1
5.	Qianjiang Xinyihong	No. 1 Park Road, Jianghan Salt Chemical Industrial Park (潛江市江漢鹽化工業園園區一路)	1,783.8
6.	Qianjiang Xinyihong	Wangchang Branch of National Tax Bureau (王場國稅分局) (the "**Wangchang Building**")	125.4

As of the Latest Practicable Date, all of these buildings (except for the Wangchang Building) were pledged to a commercial bank located in Wuhan, Hubei Province in the ordinary course of business of our Group (the "**Restricted Buildings**"). As advised by our PRC Legal Advisors, except for restrictions on our Restricted Buildings due to the above-mentioned existing pledges and leases, we have legitimate ownership of such properties and the land use right for the land occupied by such properties, and we are entitled to occupy, use, transfer, lease, create a mortgage on or by other means dispose of such properties according to applicable laws.

As of the Latest Practicable Date, (i) Building A owned by Wuhan Youji and certain auxiliary facilities owned by Qianjiang Xinyihong had not completed the fire control inspection (消防驗收) and the completion acceptance and completion filing (竣工驗收及竣工備案) before putting the properties into use; and (ii) Building B owned by Qianjiang Xinyihong had completed the fire control inspection (消防驗收) and the completion acceptance (竣工驗收) but not completed the completion filing (竣工備案). As advised by our

PRC Legal Advisors, it is required for the construction project to complete the fire control inspection and the completion acceptance in accordance with regulations before its use. These property-related non-compliance incidents were mainly due to administrative oversight. Our staff (which we confirmed that none of the directors or senior management of the Company and its subsidiaries were involved) were unfamiliar with and misunderstood certain fire control-related and completion acceptance related laws and regulatory requirements and procedures, and did not seek proper advice from external advisers or our management team. As advised by our PRC Legal Advisors, (i) for the use of buildings without passing the fire control inspection, we are subject to the risk of being prohibited from using these buildings or being ordered to close our business relevant to the affected buildings and being fined between RMB30,000 and RMB300,000; (ii) for the use of buildings without passing the completion acceptance, according to the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》), if the construction project owner fails to organize the completion-based acceptance and delivers it for use without passing the completion acceptance, it may be ordered to make rectifications, and a fine of 2% to 4% of the project contract price may be imposed; if any losses occur, the construction project owner may be liable for these losses according to the relevant laws; and (iii) the construction project shall be delivered for use after qualifying the completion acceptance, but if the construction project owner fails to submit completion acceptance report for completion filing procedure, a fine of RMB200,000 to RMB500,000 may be imposed.

In respect of the completion acceptance requirements, Wuhan Youji and Qianjiang Xinyihong respectively engaged qualified independent appraisal and inspection agents to appraise and inspect its relevant properties. Appraisal and inspection reports were issued for Wuhan Youji (the "**Wuhan Youji Appraisal and Inspection Report**") and Qianjiang Xinyihong (the "**Xinyihong Appraisal and Inspection Report**") in August 2021 and October 2022, respectively. According to the Wuhan Youji Appraisal and Inspection Report, the assessed properties satisfy the relevant design and construction requirements, and are in compliance with relevant laws, regulations and standards in all material aspects. According to the Xinyihong Appraisal and Inspection Report, the assessed properties substantially satisfy the requirements for safe use.

In respect of the fire control inspection requirements, Wuhan Youji and Qianjiang Xinyihong respectively engaged qualified independent fire control assessment institutions to conduct fire control safety assessment on its relevant production plants. Fire control safety assessment reports were issued for Wuhan Youji and Qianjiang Xinyihong in August 2021 and November 2022, respectively. According to the two fire control safety assessment reports, our fire control safety assessment rating is at a general level, which signifies a controllable risk and an acceptable level. We plan to better address our exposure to fire risk by undertaking the fire risk control measures and a recertification process which focused on the specific recommendations provided by the fire control assessment institution. Our Internal Control Consultant confirms that, in September 2021, we have implemented the fire risk control measures and made rectifications pursuant to the fire control safety assessment reports.

We conducted interviews on March 9, April 12 and May 26, 2022 with the Urban and Rural Construction Bureau Fire Supervision Station of Qingshan District, Wuhan City (武漢市青山區城鄉建設局消防監督站). Based on the interviews, the government authority confirmed that (i) Wuhan Youji has legally obtained the building ownership certificates, and it is impracticable to complete the fire control inspection at this stage; (ii) Wuhan Youji has satisfied the rectifications in accordance with the fire control assessment, and it has no further rectification requirements; (iii) Wuhan Youji may continue to operate normally in its current buildings, and administrative inspections would not affect the normal use and operation of the production plant; and (iv) the risk of administrative penalties imposed by it on Wuhan Youji due to fire control inspection issues is remote.

We also conducted interviews on March 24 and May 23, 2022 with the Urban and Rural Construction Bureau Quality Supervision Station of Qingshan District, Wuhan City (武漢市青山區城鄉建設局質量監督站). Based on the interviews, the government authority confirmed that (i) Wuhan Youji has satisfied the rectifications in accordance with its requirements, and has completed the quality identification procedures; (ii) it is impracticable to complete the completion acceptance due to historical reasons; (iii) there was no administrative penalties imposed on Wuhan Youji as of the date of the interview; and (iv) Wuhan Youji has completed its rectification requirements accordingly and may continue its current use of the production plant.

We have obtained a confirmation letter issued by the Urban-Rural Construction Bureau of Qingshan District, Wuhan City (武漢市青山區城鄉建設局) on February 8, 2023, confirming that from January 1, 2019 to the issuance date of the confirmation letter, (i) no administrative penalty was imposed on Wuhan Youji; (ii) no report or complaint was filed against Wuhan Youji; and (iii) no dispute arose from non-compliance activities against Wuhan Youji.

We conducted an interview on March 24, 2022 with the Natural Resources and Planning Bureau of Qianjiang City (潛江市自然資源和規劃局). Based on the interview, the government authority confirmed that (i) Qianjiang Xinyihong may continue its current use of Building B and the auxiliary facilities, and its normal business operations would not be impacted; (ii) from January 1, 2019 to the date of the interview, there is no report or complaint filed against Qianjiang Xinyihong with the provincial and local land administration and urban planning administration; and (iii) no dispute arose from these events against Qianjiang Xinyihong.

We conducted an interview on March 22, 2022 with the Housing and Urban-Rural Construction Bureau of Qianjiang City (潛江市住房和城鄉建設局). Based on the interview, the government authority confirmed that (i) it is impracticable for Qianjiang Xinyihong to complete the fire control inspection and completion acceptance at this stage; (ii) Qianjiang Xinyihong may continue its current use of these properties; and (iii) the department would not impose penalties on Qianjiang Xinyihong or require other rectification measures.

As advised by our PRC Legal Advisors, (i) the Urban and Rural Construction Bureau Fire Supervision Station of Qingshan District, Wuhan City, (ii) the Urban and Rural Construction Bureau Quality Supervision Station of Qingshan District, Wuhan City, (iii) the Urban-Rural Construction Bureau of Qingshan District, Wuhan City, (iv) the Natural Resources and Planning Bureau of Qianjiang City and (v) the Housing and Urban-Rural Construction Bureau of Qianjiang City are the competent authorities to provide the above confirmations. For Building A, the Company has engaged qualified parties to issue the Appraisal and Inspection Report and the Fire Control Safety Assessment Report at the rectification requests of the relevant government authorities. As confirmed by the government authorities, the rectification requirements have been satisfied, and there would be no further rectification requirements on building quality and fire control issues. The Company may continue its current use of these properties. For Building B and the auxiliary facilities, the relevant government authorities has confirmed that there would be no rectification requirements, and the Company may continue its current use of these properties. Our PRC Legal Advisors advised us that the risk of our Group receiving penalties for these non-compliances under PRC laws is low. During the Track Record Period and up to the Latest Practicable Date, these non-compliance incidents regarding fire control inspection did not lead to any fire safety issues.

Buildings without Title Certificates

As of the Latest Practicable Date, we had three properties with an aggregate gross floor area of approximately 518.0 sq.m., which we held interest in but did not obtain the relevant building ownership certificates in accordance with the laws and regulations of the PRC. These properties are primarily used as dormitories for our employees. The following table sets forth the details of these properties as of the Latest Practicable Date:

No.	Occupier of Buildings	Gross Floor Area	Non-compliance
		(sq.m.)	
1.	Qianjiang Xinyihong	124.7	Failure to obtain the building ownership certificate
2.	Qianjiang Xinyihong	124.7	Failure to obtain the building ownership certificate
3.	Qianjiang Xinyihong	268.6	Failure to obtain the building ownership certificate

As of the Latest Practicable Date, these buildings, with an aggregate gross floor area of 518.0 sq.m., were purchased and owned by Qianjiang Xinyihong, but Qianjiang Xinyihong failed to obtain the building ownership certificates. These buildings represent 0.7% of our self-owned buildings in terms of gross floor area. Due to historical reasons, these buildings were built by unidentifiable third parties on collective-ownership lands, and we commenced use of these buildings in January 2012. These property-related non-compliance incidents were mainly due to administrative oversight by our staff who were unfamiliar with or misunderstood certain property-related laws, policies and regulatory requirements and procedures; and our relevant staff did not seek proper advice from external advisors or our management team at the relevant time. As advised by our PRC Legal Advisors, these buildings without title certificate are at risk of being demolished by the competent government authority under the PRC laws and regulation, and therefore Qianjiang Xinyihong would be unable to continue its current use of these buildings if that occurs. Our Directors believe that such risk is immaterial and is not expected to have any material impact to our business, results of operations or financial condition.

As of the Latest Practicable Date, there were also certain auxiliary facilities constructed and owned by Qianjiang Xinyihong that did not complete the fire control inspection (消防驗收) or completion acceptance and filing procedure (竣工驗收及備案), and had not obtained the building ownership certificates. We have conducted interviews with competent authorities and were confirmed that we may continue our current use of such auxiliary facilities. Based on the interviews and confirmations, our PRC Legal Advisors advised that the risk of our Group being penalized for the above non-compliances regrading auxiliary facilities under relevant PRC laws is remote. During the Track Record Period and up to the Latest Practicable Date, these non-compliance incidents regarding fire control inspection for these buildings without title certificates did not lead to any fire safety issue. As confirmed by the relevant government authorities, there is no rectification requirements, and the Company may continue the normal use and operation of these auxiliary facilities. For details, please refer to "— Properties — Self-owned Properties — Buildings — Buildings with building ownership certificates" in this section.

Construction in Progress

As of the Latest Practicable Date, we had one construction in progress in Qianjiang, Hubei Province for a total gross construction area of approximately 7,650.8 sq.m. (the "**Xinyihong Construction in Progress**") and one construction in progress in Qianjiang, Hubei Province for a total gross construction area of approximately 41,869.78 sq.m. (the "**Xinxuanhong Construction in Progress**").

As of the Latest Practicable Date, we had obtained the relevant land use rights certificate (不動產權證書), construction land planning permit (建設用地規劃許可證), construction planning permit (建設工程規劃許可證) and construction work commencement permit (施工許可證) from the government authorities for the Xinyihong Construction in Progress and Xinxuanhong Construction in Progress. Based on the foregoing, our PRC Legal Advisors are of the view that we had obtained all requisite administrative permits required for the current stage of construction. Accordingly, we expect to obtain the relevant building ownership certificate for these properties in accordance with procedures after completion of the construction.

Leased Land and Properties

As of the Latest Practicable Date, we leased one parcel of land, several buildings in Wuhan and two buildings in Qianjiang. We leased one parcel of land with a total site area of 41,133.3 sq.m and several buildings with a gross floor area of 16,415.0 sq.m. from Linuo Investment. We leased another building with a gross floor area of 10,146.0 sq.m. from Twin Tigers Coatings. Both Linuo Investment and Twin Tigers Coatings are entities controlled by Mr. Gao, who is one of our controlling shareholders. These lease agreements were determined on arm's length basis and under ordinary commercial terms. These properties are used by our subsidiaries primarily as our production plant and offices. In 2022 and 2023, we also leased three buildings in Qianjiang with a total gross floor area of 3,131.1 sq.m. from three independent third parties. The buildings are primarily used as dormitories of our employees.

Five lease agreements for the properties leased by us were not registered with the relevant PRC government authorities as of the Latest Practicable Date. As advised by our PRC Legal Advisors, pursuant to the applicable PRC laws and regulations, lease agreements are required to be registered with the relevant PRC government authorities, and we may be required by the PRC authorities to register the lease agreements within a prescribed time limit. If we fail to do so, we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered PRC lease agreement, subject to the maximum aggregate fine of RMB20,000. As advised by our PRC Legal Advisors, our failure to register the lease agreements would not affect the validity of the lease agreements or affect our use of these leased properties to the extent permitted under the lease agreements. Our Directors are of the view that the non-registration of the lease agreements would not have a material adverse impact on our business operations.

Property Valuation

As of the Latest Practicable Date, no single property interest forming part of our non-property activities as defined under Rule 5.01(2) of the Listing Rules had a carrying amount of 15% or more of our total assets. As such, according to Section 6(2) of Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) under paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires us to include a valuation report for any of our interests in land or buildings. Our properties are primarily used for production, warehouse and office purposes.

AWARDS AND RECOGNITIONS

Since the establishment of our Group, we have received a number of awards in recognition of our business operations, quality management system and credit rating. Set forth below are the major awards and recognitions we received in recent years:

Awards/recognitions	Year of issuance	Issuer of award	Recipient
Top 100 Private Manufacturing Enterprises in Hubei (湖北民營製造企業100強)	2022	Hubei Federation of Industry and Commerce (湖北省工商業聯合會)	Wuhan Youji Industries Co., Ltd.
2021 China Top 100 Fine Chemical Corporates List (2021中國精細化工百強榜單)	2021	China Fine Chemical Raw Material & Intermediate Industry (全國精細化工原料及中間體行業協作組), China National Intelligence and Information Association (中國化工情報信息協會) and China National Chemical Information Center (中國化工信息中心)	Wuhan Youji Industries Co., Ltd.
2020 China Top 100 Fine Chemical Corporates List (2020中國精細化工百強榜單)	2020	China Fine Chemical Raw Material & Intermediate Industry (全國精細化工原料及中間體行業協作組), China National Intelligence and Information Association (中國化工情報信息協會) and China National Chemical Information Center (中國化工信息中心)	Wuhan Youji Industries Co., Ltd.
Top 50 Private Manufacturing Enterprises in Wuhan (武漢民營製造企業50強)	2020	Wuhan Federation of Industry and Commerce (武漢市工商業聯合會)	Wuhan Youji Industries Co., Ltd.
Top 100 Private Manufacturing Enterprises in Hubei (湖北民營製造企業100強)	2020	Hubei Federation of Industry and Commerce (湖北省工商業聯合會)	Wuhan Youji Industries Co., Ltd.
Top 50 Private Manufacturing Enterprises in Wuhan (武漢民營製造企業50強)	2019	Wuhan Federation of Industry and Commerce (武漢市工商業聯合會)	Wuhan Youji Industries Co., Ltd.

Awards/recognitions	Year of issuance	Issuer of award	Recipient
China's Top 50 Enterprises in Light Industry and Food Industry (中國輕工業食品行業五十強企業)	2019	China National Light Industry Federation (中國輕工業聯合會)	Wuhan Youji Industries Co., Ltd.
Hidden Champion of Hubei Pillar Industry Segments, the Little Giant in Science and Technology (2018-2020) (湖北省支柱產業細分領域隱形冠軍科技小巨人(二零一八年至二零二零年))	2018	Hubei Economic and Information Commission (湖北省經濟和信息化委員會)	Wuhan Youji Industries Co., Ltd.
XINKANG Benzoic Acid 2018 Famous Product (新康牌苯甲酸2018年度名優產品)	2018	Wuhan Enterprise Famous, Special and Special Innovation Achievement Examination Committee (武漢企業名優專特創新成果審定委員會)	Wuhan Youji Industries Co., Ltd.
National Labor Medal (全國五一勞動獎章)	2017	All-China Federation of Trade Unions (中華全國總工會)	Wuhan Youji Industries Co., Ltd.
Hubei Model Enterprise of Integration of Industrialization and Informatization (湖北省兩化融合示範企業)	2021	Hubei Economy and Information Technology Department (湖北省經信廳)	Wuhan Youji Industries Co., Ltd.
Specialized, Refined, Distinctive and Innovative "Little Giant" Enterprises in Hubei Province (湖北省專精特新「小巨人」企業)	2021	Hubei Economy and Information Technology Department (湖北省經信廳)	Wuhan Youji Industries Co., Ltd.

EMPLOYEES

As at the Latest Practicable Date, we had 625 employees who are all directly employed by us. The following table sets forth a breakdown of our employees by function as at the Latest Practicable Date:

Department/Function	Number of employees
Production	390
General management	84
Sales	29
Quality management	22
Accounting and finance	19
Research and development expert	24
Operations and logistics	20
Human resources and administration	3
Other supporting staff	34
Total	**625**

We take into consideration a number of factors including our business strategies, development plans, industry trends and the competitive environment when making hiring decisions. We recruit our employees based on various factors including education background, work experience and our vacancy needs. Our employees are generally remunerated by fixed salary and bonus based on performance.

We believe our success depends on our employees' provision of consistent, quality and reliable services. In order to develop the knowledge, skills and quality of our employees, we place strong emphasis on employee training. We regularly conduct induction courses, training programs and safety courses to enhance our employees' skills. Apart from the above, we also incentivize our employees to gain knowledge in the relevant field of studies. We believe this will also increase the overall competitiveness of our workforce.

For the years ended December 31, 2021, 2022 and 2023, our total staff costs amounted to approximately RMB98.5 million, RMB109.7 million and RMB82.3 million, respectively.

We maintain good working relationship with our employees. Our annual employee turnover rate remained below 5.0% during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we did not experience any labor disputes that had a material and adverse effect on our business, financial conditions or operating results.

INSURANCE

We maintain various insurance covering our properties, manufacturing facilities, plant and machinery, equipment and inventories. We also maintain insurance coverage for our employees, including pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance.

Our Directors believe that we have sufficient insurance coverage in place and the terms of our insurance policies are in line with the industry norm. For the years ended December 31, 2021, 2022 and 2023, the total amounts of insurance premium paid were approximately RMB26.4 million, RMB29.2 million and RMB30.5 million, respectively. During the Track Record Period and as at the Latest Practicable Date, we had not made and did not make or had not been subject to any material insurance claims or product liability claims. We review and assess our risks and make necessary adjustments to our insurance coverage in line with our needs and industry practice in the PRC. However, there is a risk that we do not have sufficient insurance coverage for losses and damages that may arise in our business operations. For further details, please refer to "Risk Factors — Our existing insurance coverage may not be sufficient to cover the risks related to our operations and we may incur significant losses resulting from product liability claims or business interruptions" in this prospectus.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our Governance

We are subject to various health, safety, social and environmental laws and regulations and regular inspections by governmental authorities. We are committed to environmental, social responsibility and governance (collectively "**ESG**") issues which are essential to our continuous business development and success. Our Board has the ultimate accountability for our ESG strategy, management and performance. To effectively manage ESG related matters, our Board established an ESG committee, which comprises three directors and two members from our management team. Our ESG committee is led by our chairman Mr. Zou and joined by Dr. Liu Zhongdong (劉鐘棟), Ms. Li Deye (李德曄), Mr. Shen Haifeng (沈海峰) and Mr. Zhou Xu (周旭). Mr. Zou is primarily responsible to oversee our ESG related matters.

We have developed ESG policies which set out, among others, (i) the appropriate risk governance on ESG matters, (ii) ESG strategy formation procedures, (iii) ESG risk management and monitoring, and (iv) the identification of key performance indicators ("**KPIs**") and measurements. The ESG policies were established in accordance with the standards of Appendix C2 to the Listing Rules. In particular, when setting targets for each KPI, we take into account the respective historical levels during the Track Record Period, and consider our future business expansion with a view to balance business growth and the need of ESG to achieve sustainable development. The material KPIs are reviewed regularly to ensure that they remain appropriate to the needs of our Group.

Our Board sets targets for each material environmental KPI at the beginning of each financial year in accordance with the disclosure requirement of Appendix C2 to the Listing Rules and other rules and regulations. The ESG KPI targets are reviewed on an annual basis. Our Board oversees the performance of our Group in achieving the ESG targets and objectives and investigate the reasons for any deviation. Our Board will revise our ESG strategy as appropriate when significant variance from the target is identified.

The ESG committee conducts regular assessments in relation to the current and potential ESG matters we face in the course of our operation. We will then adopt specific steps to address the potential matters and minimize any risks inherent in our business operations. Our Group will continue to identify and manage ESG related issues and risks in order to achieve our business objectives and ensure our stable development.

Actual and Potential Impact of Environmental and Climate-related Risks on Our Businesses, Strategies and Financial Performance

We may be exposed to possible financial loss and non-financial detriments arising from environmental and climate-related risks. These risks include the following:

(i) transition risks: risks arising from compliance with the applicable environmental laws and regulations and the environmental protection standards; and

(ii) physical damages: damages arising from acute climate-related events and longer-term chronic shifts in climate patterns.

Our production process involves the discharge of waste water and solid waste and the use of chemical materials. Our production activities in the PRC are subject to the central government's environmental laws and regulations as well as the environmental regulations and standards promulgated by local government authorities under the laws of the central government. For details, please refer to "Regulatory Overview — Law and Regulations Relating to Environmental Protection" in this prospectus. If we fail to comply with any of the applicable environmental protection laws and regulations, we may be subject to fines or penalties. The laws and regulations on environmental protection may change from time to time, and any change may increase our cost of compliance and burden our operations. For details, please refer to "Risk Factors — Risks Relating to the PRC — Changes in existing laws and regulations or additional or more stringent laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditure" in this prospectus. These regulatory developments, together with the existing laws, regulations and expectations, may have significant impacts on the production activities of our Group, and thus present "transition" risks to us, which may affect our production and overall business operations. Furthermore, if our Group breaches any environmental law and regulations or faces any accusation of negligence in environmental protection, it will adversely affect our reputation and our credibility. It may also affect our business performances and reduce the competitiveness of our Group in the industry. Our business opportunities may also be negatively impacted as our Group may be disadvantaged by the reputational damage and loss of credibility, and our customers may be less willing to engage and do business with an unsustainable supplier.

On the other hand, if the governments fail to enact policies to mitigate the impact that may arise from climate change, such as global warming, high sea level and hostile climate changes, our business operations could be susceptible to physicals damages as a result of droughts, floods, inclement weather, El Nino and other phenomenons alike. For instance, global warming and extreme climate conditions could affect the efficiency of different stages in the value chain of our industry from the access of raw materials to the production, storage and the delivery our customers. These physical damages could affect our business, financial conditions, results of operation and prospects.

As advised by our PRC Legal Advisors, we had complied with the applicable environmental laws and regulations in the PRC in all material respects during the Track Record Period and up to the Latest Practicable Date. Save for the foregoing and up to the Latest Practicable Date, our Directors were not aware of any actual environmental and climate-related risks or damages that could negatively impact our businesses, strategies and financial performance.

Global Environmental Opportunities

Protecting the environment is a priority for consumers, companies and governments. This converging interest driven by increased global awareness of climate change, technological advances and health concerns are underpinning a global drive to develop our industry as an environment friendly segment of the economy. The development of our industry also benefits from governments' policy changes. The PRC government has been taking actions to plan and support the development of our industry and related downstream industries which utilize derivative products including food additives, food preservative and feed additives. According to the Announcement No. 194 of the Ministry of Agriculture and Rural Affairs of the People's Republic of the PRC, starting from July 1, 2020, feed manufacturers stopped producing commercial feed containing growth-promoting drug feed additives (except for traditional Chinese medicine), which promote the development of functional feed additives. The past few years witnessed a more stringent and comprehensive regulation of the food and beverage preservative industry in the PRC. In 2019, The Regulation on the Implementation of the Food Safety Law of the People's Republic of the PRC《中華人民共和國食品安全法實施條例》was released by the State Council, which proposed to establish food safety risk evaluation mechanism and assess risks in terms of the biological, chemical and physical impact of food additive and related products. In 2021, the National Cosmetic Safety Risk Monitoring Plan for the second half of 2021 (《2021年下半年國家化妝品安全風險監測計劃》) was issued by the National Medical Products Administration to provide scientific basis for developing cosmetic quality and safety risk control measures and standards, and conducting cosmetic sampling and testing. According to the Frost & Sullivan Report, disciplined regulations will further promote the development of industries where the toluene and toluene derivative products are used.

Therefore, our Directors expect that the global response to environmental and climate-related risks in relation to the use of our products will have a positive and long-term impact on our Group. With this favorable development opportunity, we intend to expand our production capacity to capture this market opportunity. For details, please refer to "— Production Expansion Plan" in this section.

Environmental, social and climate-related risks identification, assessment and management

Our Group plans to conduct enterprise risk assessment at least once a year on existing and potential risks we face in our business, including risks related to ESG. In order to manage environmental-related risks and social sustainability risks, our Board will establish our ESG policies following the Listing and adopt measures specified in our ESG policies to address the risks identified during the enterprise risk assessment and minimize any potential risks inherent to our business operations.

Our Board has the overall responsibility for evaluating and determining our Group's ESG-related risks, and establishing, adopting and reviewing the ESG vision, policy and target of our Group. Our ESG Committee (ESG委員會) will monitor the implementation of the ESG policy and ESG-related aspects of our production activities. We will also engage independent third parties to evaluate the risks and review our Group's existing strategy, target and internal controls, and necessary improvement will be implemented to mitigate the risks.

Environmental Protection and Monitoring

Our production process involves the discharge of wastewater, gas and solid waste, and the use of chemical materials. We endeavor to minimize any adverse impact on the environment resulting from our business activities. The conduct of our business is subject to various national laws, regulations, rules and standards on environmental protection, including the Environmental Protection Law of the PRC. For further details in respect of applicable environmental laws, regulations, rules and standards, please refer to "Regulatory Overview — Laws and Regulations Relating to Environmental Protection" in this prospectus.

We continue to observe the laws and regulations in relation to environmental protection in the PRC in all material aspects. We have implemented environmental protection measures in our operations including environmental protection procedures to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations. According to our environmental and pollution control policies, we have various measures in place to process and dispose of our industrial wastes to minimize the impact on the environment. For example, we regularly inspect our production equipment to ensure exhaust emissions are within the regulated limits. For waste water treatment, we have water quality real-time monitoring equipment installed in our sewage pipelines to ensure pollutants meet government standards before discharge. We also installed soundproof devices and walls to control the noise generated during our production process. According to our policy on procedures for identification and assessment of environmental impact, our employees should be aware and monitor the impact of our operations from the following aspects: (i) air exhaust; (ii) waste water; (iii) noise; (iv) solid waste; (v) fire safety; and (vi) resources consumption, including energy, raw materials and other natural resources.

During the Track Record Period, the discharge of each of the key pollutants generated during our production process had remained within prescribed regulatory limits, and we believe that our business operations do not have a material adverse impact on the environment. Our production facilities in the PRC are subject to regular inspection by PRC environmental regulatory authorities. If our facilities are found not to be in compliance with applicable environmental standards, we may be subject to penalties, which may range from fines to suspension of production.

Air pollutant and waste gas

Air pollutants generated during our production process mainly include particle matters, sulfur dioxide, nitrogen oxides, benzene, toluene, xylene, ammonia, hydrogen sulfide, odor and volatile organic compounds. We adopted different tail gas treatment measures, such as six-stage condensation and activated carbon canister recovery, water washing tower and ammonia absorption tower to treat different pollutants produced in different manufacturing processes. We also closely monitor the air quality level to ensure that (i) we use clean natural gas for our heat conduction furnaces; (ii) the air pollutants and waste gas emission are controlled in accordance with the Emission Standard of Air Pollutants for Boiler (《鍋爐大氣污染物排放標準》) (GB13271-2014) jointly issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) and the Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部) (the "**MEE**"); (iii) ammonia, hydrogen sulfide and odor concentrations are controlled in accordance with Emission Standards for Odor Pollutants (《惡臭污染物排放標準》) (GB14554-93) issued by MEE, and (iv) other monitoring items are controlled in accordance with Integrated Emission Standard of Air Pollutants (《大氣污染物綜合排放標準》) (GB16297-1996) issued by MEE.

Wastewater

Water pollutants such as ammonia, phosphorus, particulates, organic particles, acid and alkali wastewater generated from our production process and domestic wastewater are processed in our sewage treatment plant before discharge to the third-party sewage treatment plant in the industrial park where our production plants are located for further processing. We conduct our sewage treatment in accordance with the discharge requirements implemented by the third-party sewage treatment plant and the Integrated Wastewater Discharge Standard (《污水綜合排放標準》) (GB8978-1996) issued by the State Administration for Market Regulation (國家市場監督管理總局). We also installed on-line monitoring facilities at the discharge outlets, which are connected with the network of the Wuhan Ecological Environment Bureau (武漢市生態環境局) to ensure that the discharge complies with laws, regulations and relevant provisions.

Noise

Noise may be generated during the operation of our production equipment such as crushers, air compressors, various pumps, stirring motors and boiler fans. We minimize our noise emission by (i) adopting advanced and low-noise equipment, vibration isolation, shock absorption measures and muffler installation to reduce the noise source; (ii) rationally arranging the production plant layouts to place equipment with higher noise emissions in the distant areas to increase the noise transmission distance and reduce the negative effect; and (iii) planting high and dense-leaved shrubs and trees surrounding the wall of our production plants to reduce noise.

Hazardous solid waste

Our manufacturing process may generate hazardous solid wastes, which primarily include distillation residue and sludge (HW11(900-013-11)), waste packaging (HW49(900-041-49)), waste activated carbon (HW49(900-039-49)), waste oil (HW08 (900-219), laboratory waste (HW49(900-047-49)) and waste resin (HW13(265-103-13)). Hazardous wastes are properly packaged, labeled, set up in a ledger, temporarily stored in a hazardous wastes warehouse, and finally transported to a qualified hazardous wastes treatment plant for treatment. We closely monitor and control the hazardous wastes in accordance with the Standard for Pollution Control on Hazardous Waste Storage (《危險廢物貯存污染控制標準》) (GB18597-2001) issued by the MEE.

Resources consumption

We aim to carry out our production in an environmental-friendly manner. Minimizing the resource consumption of electricity, natural gas and water in our production process is one of the key considerations in our operations. We make constant technical improvements to our production equipment to reduce energy and water consumption. We place great importance to water resource management and the efficient use of water. We also advocate the concept of green office and encourage our employees to reduce energy consumption, including the use of energy efficient electrical appliances in the office and electricity-saving initiatives such as switching off the lights in public areas during non-working hours, minimize water consumption by using water-saving appliances, and reduce waste generation through the use of recycling bins to minimize the impact on the environment.

Energy conservation

Our energy conservation measures are supervised under the annual review of carbon emission and carbon compliance conducted by the Department of Ecology and Environment of Hubei Province (湖北省生態環保廳, the "**HBEE**"). In accordance with the requirements implemented by the HBEE, we strictly follow the carbon compliance, cooperate with the review authorities to conduct the carbon emission review, eliminate out-of-date equipment in accordance with the relevant environmental laws and regulations, adopt compliant measuring instruments, and regularly report energy consumption data according to statistical requirements. In 2017, we were awarded the Green Energy Efficiency Award (綠色節能獎) by the China Chemical Energy Conservation Technology Association (中國化工節能技術協會) and Benzoic Acid Energy Conservation and Green Manufacturing Professional Committee (苯甲酸節能綠色製造專業委員會) for our efforts.

Upon listing, our ESG Committee will be responsible for monitoring the ESG performance of our Group and reports to the Board on a regular basis. The Board oversees the performance of our Group in achieving the ESG targets and objectives. The ESG Committee will investigate the reasons for any deviation from the targets and objectives and the Board will revise our ESG strategy as appropriate when significant variance from the target is identified.

As of the Latest Practicable Date, we had been accredited with ISO9001, FSSC22000, FAMI-QS, HALAL, BRC, ISO50001, ISO14001, OHSAS18001 and ISO45001 for our quality management system, environmental management system and occupational health and safety management system. We strive to maintain an effective internal control system on both environmental and social aspects to meet the ISO standards.

Our costs of compliance with applicable environmental rules and regulations were approximately RMB14.3 million, RMB7.5 million and RMB9.6 million respectively for the years ended December 31, 2021, 2022 and 2023. As the PRC legal system continues to evolve, we may be requested to undertake significant expenditures in order to comply with environmental laws and regulations that may be adopted in the future.

Our environmental protection performance

In line with our vision for sustainable development, we oversee our environmental protection performances in various aspects, such as efficiency in the use of resources, emissions and water and energy consumption. In order to monitor and have effective control over our environmental protection measures and to evaluate any deviation from the emission standards under the applicable laws and regulations, we utilize the pollution control equipment and devices we installed at our production facilities to control and record the emission level of air pollutants, waste gas and wastewater. Monitoring of the emission level of air pollutants, waste gas and wastewater on a regular basis allows us to have prompt investigation and undertake rectification measures in a timely manner. Pursuant to the applicable PRC laws and regulations, the discharge of pollutants must comply with the waste discharge permitted levels and emission standards promulgated by the relevant government authorities. We have obtained confirmations from the relevant environmental protection authorities to confirm that the discharge of key pollutants had remained within the prescribed regulatory limits during the Track Record Period.

The table below sets forth the analysis of our environmental protection performance during the Track Record Period:

	Year ended December 31,			Discharge Permitted Level
	2021	2022	2023	
Wuhan Production Plant				
Air pollutant and waste gas				
Sulfur dioxide emission (tons/year)	2.60	2.63	0.12	
Nitrogen oxides emission (tons/year)	20.62	20.86	3.64	≤53.86
Volatile organic compounds	22.96	18.97	13.37	≤48.04
Wastewater(1)				
Chemical oxygen demand (mg/L)	4.43	4.36	3.63	≤32.46
Ammonia nitrogen (mg/L)	0.02	0.02	0.03	≤4.13
Water consumption				
Total water consumption (m^3)	761,979	793,008	677,381	
Water consumption intensity (m^3 per million RMB revenue)	342.1	310.4	301.8	
Energy consumption				
Total energy consumption (tons of coal equivalent)	37,918.1	38,858.6	35,472.1	
Energy consumption intensity (tons of coal equivalent per million RMB revenue)	17.0	15.2	15.8	
Greenhouse gas emission(2)				
Scope 1 emission (tCO_2e)	27,668.2	28,083.4	26,502.9	
Scope 2 emission (tCO_2e)	77,192.3	83,651.5	75,558.7	
Qianjiang Xinyihong Production Plant				
Wastewater(1)				
Chemical oxygen demand (mg/L)	21.76	13.46	9.36	≤500
5-day biochemical oxygen demand (mg/L)	15.5	28.6	32.5	≤130
Ammonia nitrogen (mg/L)	0.0080	0.2850	0.2610	≤35
Particulates intensity (mg/L)	34	37	13	≤300
Water consumption				
Total water consumption (m^3)	175,541	119,418	113,791	
Water consumption intensity (m^3 per million RMB revenue)	296.5	123.7	148.4	
Energy consumption				
Total energy consumption (tons of coal equivalent)	25,355.0	21,687.2	23,386.4	
Energy consumption intensity (tons of coal equivalent per million RMB revenue)	42.8	22.5	30.5	
Greenhouse gas emission(2)				
Scope 1 emission (tCO_2e)	22.0	22.0	24.3	
Scope 2 emission (tCO_2e)	64,198.6	66,845.9	63,999.6	

Notes:

(1) Wastewater of Wuhan Production Plant and Qianjiang Xinyihong Production Plant is treated by the professional wastewater treatment plant of the respective industrial park (where several other third party production plants are located) after the primary treatment by the respective production plant of our Group. Therefore, the wastewater index during the Track Record Period was only available and reported based on the processing volume of the entire industrial park.

(2) Pursuant to Appendix 2 of "How to Prepare an ESG Report" set out by the Stock Exchange, Scope 1 greenhouse gas emissions refer to direct emissions from equipment and operations that are owned or controlled by our Group; Scope 2 greenhouse gas emissions refer to energy indirect emissions resulting from the generation of purchased or acquired electricity, heating, cooling, and steam consumed within our Group.

We strictly adhere to the standards, metrics and targets set or issued by the ESG-related laws and regulations in assessing and managing our impacts on the environment as a result of our business activities, such as the discharge of pollutants or harmful substances in the course of our production. At the same time, we are in the process of establishing more detailed ESG-related metrics and targets after consulting with relevant stakeholders. We will continue to monitor climate-related matters and governmental developments to combat climate change and act to minimize the impact on our operations.

Furthermore, to better manage our ESG-related risks, we aim to reduce our greenhouse gas emissions and resource consumption in the foreseeable future. Although our total overall greenhouse gas emissions and resource consumption may increase in the future in view of our expansion plan for Hubei Xinxuanhong Production Plant, we plan to reduce our Scope 1 and Scope 2 greenhouse gas emissions at the Wuhan Production Plant and Qianjiang Xinyihong Production Plant by emission per ton of production by approximately 5% by the year ending December 31, 2026 based on our emissions in 2023. We also aim to reduce our electricity consumption and water consumption by consumption per ton of production by approximately 5% and 3%, respectively, by the year ending December 31, 2026 based on our electricity and water consumption in 2023.

Scope 3 emissions are indirect emissions that arise as a result of business activities but are under the operational control of another entity. The greenhouse gas protocol defines 15 different categories of Scope 3 emissions, and we currently identify major Scope 3 emission sources from our raw material suppliers and business travel during our operations.

To mitigate our indirect impact through raw material suppliers, we plan to strengthen our ESG practices and actively research the carbon footprint of our raw material suppliers and enlist environmental protection capability as one of our assessment elements when evaluating such raw material suppliers. Our major suppliers are subject to applicable environmental laws or regulations and demonstrate a strong commitment to ESG principles. With respect to raw materials that we have stable access to and diversified supplier base for, we will ensure that the raw material suppliers are competent in carrying out sustainable operations and exert continuous effort to minimize environmental impact to the extent practicable. When screening third-party raw material suppliers to be newly engaged in the future, we will consider low carbon emissions as one of our top priority criteria with evaluation metrics emphasizing environmental impact, energy and resource utilization, use of renewable energy and other innovative means for producing a smaller carbon footprint.

Additionally, we actively promote the use of remote video conference and similar collaborative methods among our employees to curtail unnecessary business travel and further diminish Scope 3 emissions. We plan to gradually develop statistics and monitoring of Scope 3 green gas emissions in accordance with the applicable guidelines, and we will comply with the relevant disclosure requirements starting from the fiscal year ending on December 31, 2025.

Social Responsibilities

The well-being of our employees is crucial to our business operation. We pay close attention to the ethical treatment of our employees, strive to foster a strong sense of belonging within our workforce, and provide our employees with an environment for continuous career development. We also provide them with a wide range of training programs covering different key aspects of our business operation. These programs provide continuous training for employees at different levels to specialize and strengthen their skills.

For our new employees, we assign experienced staff as mentors to provide in-depth instructions, share useful experience and give feedback to new employees to guide them through the transitional period. In addition, we offer remuneration packages to our employees, which include a number of subsidies and are subject to adjustments based on their performance.

We adopt equal opportunity principle for the recruitment and promotion of our employees based on their ability and performance. We are also committed to create a work environment with diverse genders and age groups. We provide fair and equal career development and learning opportunities to all staff, regardless of gender, age and personal status. Discrimination of any kind is strictly forbidden at our workplace.

Occupational Health and Work Safety

In the PRC, we are subject to laws and regulations on labor, safety and work-related incidents such as the Work Safety Law of the PRC (《中華人民共和國安全生產法》). For further details, please refer to "Regulatory Overview — Laws and Regulations Relating to Safe Production" in this prospectus. We have put in place safety guidelines and operating manuals on the safety measures for our production process, including the Safety Inspection and Hazard Investigation and Control System (《安全檢查和隱患排查治理制度》), which establishes a long-term mechanism for investigating and controlling safety hazards through various forms of periodical inspections and graded governance for identified hazards to monitor the control status and ensure timely completion of potential hazard control. We also provide our employees with trainings on workplace safety to raise their awareness of safety procedures and policies, which include guidelines for safety management, proper operation and usage of equipment and machinery, emergency situations handling, and accident reporting rules. We implemented various work safety policies and procedures to ensure that our operations are in compliance with the applicable laws and regulations. The equipment and machinery of our production facilities are also subject to periodic maintenance, and our employees are required to receive trainings to enhance their awareness of workplace safety.

In addition, our daily operation involves the storage, handling and use of flammable, toxic, and explosive materials. Improper handling of these materials may result in serious health effects on our employees or personal injury. Certain products produced by us are toxic and/or flammable in nature. According to the relevant categories classified by the PRC Ministry of Emergency Management (中華人民共和國應急管理部), benzyl chloride and benzonitrile are classified as Category VI (toxic ingredients) under hazardous chemicals, but not the highly toxic chemicals. According to the List of Hazardous Chemicals (《危險化學品目錄》), only the hazardous chemicals with severe acute toxic hazards are highly toxic chemicals, and most hazardous chemicals are not highly toxic chemicals. We have put in place guidelines and policies on the management of toxic and/or inflammable materials for our operation, including the Hazardous Chemicals Safety Management Policy (《危險化學品安全管理制度》), which regulates the safety management of hazardous chemicals in the process of procurement, production, use, storage, transportation, sales and scrapping. For examples, for manufacturing process that involves usage and storage of toxic chemicals, relevant departments are required to set up corresponding anti-toxicity and anti-leakage safety facilities and equipment in production and storage devices, workshops, warehouses and other workplaces according to the types and characteristics of toxic chemicals, and carry out regular maintenance and maintenance of safety facilities and equipment in accordance with applicable laws, regulations and standards. For the transportation of toxic chemicals, vehicles carrying toxic chemicals are required to display safety warning signs, and install with the necessary emergency treatment and safety protection equipment in accordance with applicable laws, regulations and standards. As confirmed by our internal control advisors, we have implemented the necessary measures in accordance with the internal policies. During the Track Record Period, we have not received any complaints on material issues on production safety or any claims from our employee on serious personal injuries. As at the Latest Practicable Date, there were no claims or penalties from the relevant authorities in the jurisdiction that we operate in. We have designated warehouses in place for the storage of raw materials or goods that are classified as hazardous substances. These warehouses are equipped with safety and fire control systems and equipment in accordance with PRC laws and regulations. As at the Latest Practicable Date, the storage levels of our inventory, including hazardous substances, remained satisfactory and were within our storage capacity.

As of the Latest Practicable Date, we had identified historical non-compliance incidents set forth below in respect of occupational health and work safety.

"Three Simultaneities (三同時)" Procedures Regarding Occupational Diseases Prevention and Control

As advised by our PRC Legal Advisors, the "Three Simultaneities (三同時)" Procedures for the prevention and control of occupational disease hazards require that the main project and its occupational disease protection facilities should be designed, constructed, and put to use simultaneously. Specifically, for the construction project with potential occupational hazards, the construction project owner should design the occupational disease prevention facilities in accordance with the relevant requirements before construction. Before the project is completed and accepted or during trial operation, the construction project owner should evaluate the control effect of occupational hazards and prepare an evaluation report. Furthermore, prior to the acceptance of occupational disease prevention facilities, the construction project owner should prepare an acceptance plan. In the course of constructing our Qianjiang Xinyihong Production Plant, we did not attend to the "Three Simultaneities (三同時)" procedures for the prevention and control of occupational disease hazards for certain sectors of the construction project. This was primarily due to an inadvertent error of our administrative staff for failing to comprehend the legal requirements of the "Three Simultaneities (三同時)" procedures.

As advised by our PRC Legal Advisors, according to the Measures for the Supervision and Administration of "Three Simultaneities" of Facilities for the Prevention and Control of Occupational Diseases of Construction Projects (《建設項目職業病防護設施「三同時」監督管理辦法》) of the PRC and relevant laws and regulations, the government authority may issue a warning regarding the violation and impose a correction order requiring an entity to undertake rectification measures within a prescribed time. The government authority may also impose a fine of no less than RMB100,000 and not exceeding RMB500,000, and for more severe violations, order the project to cease the operation that causes occupational disease hazards, or report the violation to another proper government authority in order to impose an order requiring an entity to undergo mandatory suspension of construction or closure of business for (i) the failure to conduct occupational health pre-assessments before commencing production and operation or (ii) the failure to design, construct and put into construction and use of the occupational disease protection facilities of a construction project concurrent to the main construction in accordance with the laws and regulations.

In September 2019, Qianjiang Xinyihong engaged a qualified third party occupational diseases assessment agent to conduct a series of occupational diseases assessments on the Qianjiang Xinyihong Production Plant, and issued the Occupational Diseases Assessment Report on September 17, 2019 (the "**2019 Occupational Diseases Assessment Report**"). An updated occupational diseases assessment report was issued in November 2022 (the "**2022 Occupational Diseases Assessment Report**"). Pursuant to the two Occupational Diseases Assessment Reports, Qianjiang Xinyihong has substantially satisfied the requirements for the prevention and control of occupational diseases under the relevant laws and regulations.

We have obtained a confirmation letter issued by the Health Commission of Qianjiang City (潛江市衛生健康委員會) on January 9, 2024, confirming that (i) Qianjiang Xinyihong has been complying with the national and local laws and regulations as well as the administrative and other normative documents on occupational health supervision, and has satisfied the requirements for the construction of occupational disease prevention facilities and the use of relevant evaluation records for its workplace in accordance with relevant laws and regulations; and (ii) that since January 1, 2019 to the date of the confirmation letter, no violation of laws, regulations, administrative and other normative documents were found with respect to the occupational health supervision and management, no dispute with this commission was pending, and no report or complaint was received by this commission from others against Qianjiang Xinyihong. As advised by our PRC Legal Advisors, the Health Commission of Qianjiang City is the competent authority to issue this confirmations.

We conducted an interview on March 24, 2022 with the Health Commission of Qianjiang City (潛江市衛生健康委員會). Based on the interview, the government authority confirmed that as of the date of the interview (i) Qianjiang Xinyihong may continue its current use of and conduct its normal production and operation in the construction projects; and (ii) there were no corrections or rectification measures imposed on Qianjiang Xinyihong, and there were no situation that would affect its normal operation. As advised by our PRC Legal Advisors, the Health Commission of Qianjiang City is the competent authorities to provide the above confirmations.

We have implemented internal control policies to monitor compliance with the "Three Simultaneities (三同時)" Procedures requirements, including the following procedures (i) the project management team should simultaneously review the design of both the main project and occupational disease protection facilities of the project, simultaneously check the construction of both the main project and occupational disease protection facilities, and simultaneously conduct project acceptance of both the main project and occupational disease protection facilities; (ii) the construction team should simultaneously manage the construction process of both the main project and occupational disease protection facilities, and check the construction quality of both the main project and occupational disease protection facilities; and (iii) the security and environment protection team should supervise and inspect whether all relevant procedures are carried out according to the "Three Simultaneities (三同時)" Procedures requirements.

According to the Occupational Diseases Assessment Reports, Qianjiang Xinyihong has substantially satisfied the relevant requirements and standards. Based on the confirmations obtained from interviews with the Health Commission of Qianjiang City, the government authorities did not impose any rectification measures on Qianjiang Xinyihong for the non-compliance regarding the "Three Simultaneities (三同時)" Procedures. Therefore, based on the above, our PRC Legal Advisors are of the view that the risks for Qianjiang Xinyihong being imposed any rectification measures or penalties for failure to make timely rectification measures due to the aforementioned non-compliance is remote; and the risk for Qianjiang Xinyihong being ordered to stop construction, suspend or terminate its manufacturing, or end use of the production plant for this historical non-compliance incidents is remote.

Energy Conservation Review (節能審查)

Qianjiang Xinyihong did not attend to the energy conservation review for (i) the project of benzyl alcohol production with a designed annual production capacity of approximately 10,000 tons (the "**Benzyl Alcohol Project (10,000 tons)**"), and (ii) the project of benzyl chloride and ester production with a designed annual production capacity of approximately 50,000 tons and 1,000 tons, respectively, (the "**Benzyl Chloride and Ester Products Project**") in our Qianjiang Xinyihong Production Plant. As advised by our PRC Legal Advisors, corporate entity should obtain the energy conservation review opinion for its fixed assets investment projects from the authorities before commencing project construction. The Benzyl Alcohol Project (10,000 tons) and the Benzyl Chloride and Ester Products Project have already commenced construction, and it is impracticable to complete the energy conservation review at this stage. As advised by our PRC Legal Advisors, according to the Measures for Examining Energy Conservation of Fixed Assets Investment Projects (《固定資產投資項目節能審查辦法》), in case of failure of conducting energy conservation review, the government authority may order the suspension of construction, production and use of fixed asset of the investment project and to renovate within certain period. For production projects that cannot be renovated or has not been renovated within the time limit, the relevant authority may shut down the project and hold the responsible persons liable for these actions.

We have engaged a qualified third party assessment agent to assess energy efficiency of our Benzyl Alcohol Project (10,000 tons) and Benzyl Chloride and Ester Products Project. The assessment reports were issued in May 2022, and the assessment agent is of the view that our Benzyl Alcohol Project (10,000 tons) and Benzyl Chloride and Ester Products Project conform to the requirements of national and local industrial policies and industrial energy-saving specifications, and the project construction schemes conform to the requirements of relevant energy-saving standards. On May 12, 2022, the Development and Reform Commission of Qianjiang City (潛江市發改委) issued two separate notices for the Benzyl Alcohol Project (10,000 tons) and Benzyl Chloride and Ester Products Project of Qianjiang Xinyihong, which confirmed that the Benzyl Alcohol Project (10,000 tons) and

Benzyl Chloride and Ester Products Project of Qianjiang Xinyihong have satisfied the approval requirements on energy conservation review for construction project and the rectification measures of these two projects have been satisfactorily completed. On January 9, 2024, the Development and Reform Commission of Qianjiang City issued a confirmation letter to confirm that Qianjiang Xinyihong was not currently under investigations or subject to administrative penalties related to energy conservation management. As advised by our PRC Legal Advisors, the Development and Reform Commission of Qianjiang City is the competent authority to issue such confirmations.

Based on the above confirmations and documents, our PRC Legal Advisors are of the view that the risk for Qianjiang Xinyihong being ordered to stop construction, suspend or terminate its manufacturing or end use of the production plant for the above-mentioned historical non-compliance incidents is remote.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not encounter any incidents or complaints that would materially and adversely affect our operations. According to the examinations conducted by our PRC Legal Advisors, our PRC Legal Advisors did not find our Group incurring any material administrative penalties for violations of energy conservation review requirements during the Track Record Period.

LEGAL PROCEEDINGS AND NON-COMPLIANCE OF OTHER MATTERS

From time to time, we may be subject to legal proceedings, investigations and claims incidental to the conduct of our business. During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material litigation, arbitration or claims (including personal injuries, employee compensation or product liability claims) and we are not aware of any material litigation, arbitration or claims pending or threatened against us that would have a material adverse effect on our business, financial condition or results of operations. Our Directors are not involved in any actual or threatened claims or litigations. However, we may from time to time become a party to various legal, arbitration or administrative proceedings arising from the ordinary course of business operations.

During the Track Record Period, we did not commit any material violations of the laws or regulations which is likely to have a material adverse effect on our business, financial condition or results of operations. We understand from our PRC Legal Advisors that, other than (i) our failure to (a) complete certain inspections or filings; and (b) obtain certain building ownership certificates as disclosed in the subsection headed "— Properties — Self-Owned Properties — Buildings", (ii) our failure to attend to (a) the "Three Simultaneities (三同時)" procedures for the prevention and control of occupational disease hazards for certain sectors of the construction project; and (b) the energy conservation review for certain projects as disclosed in the subsection headed "— Environmental, Social and Governance — Occupational Health and Work Safety" and (iii) the non-compliance of our Group relating to advances arrangement as disclosed in the subsection headed "— Non-compliance relating to Advances Arrangement" in this prospectus, we had complied with all relevant laws and regulations in all material respects during the Track Record Period and the subsequent period up to the Latest Practicable Date.

NON-COMPLIANCE RELATING TO ADVANCES ARRANGEMENT

The following table summarises the non-compliance of our Group relating to advances arrangement during the Track Record Period:

Non-compliance incident	Reasons for the non-compliance	Legal consequences and maximum penalty	Rectification actions taken	Potential operational and financial impact
During the year ended December 31, 2021, our Group provided loans to Linuo Group and Linuo Investment, each being a related party of our Group, in the amount of RMB259.6 million and RMB229.1 million, respectively. Such advances were made by our Group using a majority of cash and bank balances and a small portion of bank acceptance bills (the "**bills**") and were recorded as other receivables due from related parties as of December 31, 2021. Our Group endorsed 245 and 87 bills and the aggregate amount of RMB50.8 million and RMB12.2 million to Linuo Group and Linuo Investment, respectively, for the year ended December 31, 2021 (the "**Advances Arrangement**"). As advised by our Directors, our Group did not provide any advances via endorsement of Bills to its related parties other than Linuo Group and Linuo Investment during the Track Record Period, and it received all the bills under the Advances Arrangement through actual underlying transaction and was not the drawer of such bills. According to Article 10 of the Negotiable Instruments Laws of the PRC (《中華人民共和國票據法》) (the "**PRC Negotiable Instruments Laws**"), the issue, acquisition and endorsement of the bills shall follow the principle of good faith and shall be supported by actual underlying transaction or pre-existing debt relationship. As advised by our PRC Legal Advisors, the Advances Arrangement was not in compliance with Article 10 of the PRC Negotiable Instruments Laws as it was not supported by actual underlying transaction or pre-existing debt relationships (i.e. our Group was not a creditor of the related parties at the time of endorsement of bills).	As advised by our Directors, the Advances Arrangement was principally conducted to provide working capital support to Linuo Group and Linuo Investment and was due to lack of understanding of the laws and regulations in the PRC by the finance department of our Group, which was delegated to handle these financing arrangements. Our Directors confirmed that at the material time, our Group's finance department decided to extend the advances by endorsement of bills instead of lending of cash in order to maintain cash balances. The relevant staff thought that such lending was an "intra-group" transactions, and genuinely misinterpreted that it was also an actual underlying debt relationship to support the transfer of bills under the PRC Negotiable Instruments Laws. They also understood that the extension of advances by endorsement of bills was a common market practice in the PRC.	As advised by our PRC Legal Advisors, as of the Latest Practicable Date, there were no specific provisions in the PRC Negotiable Instruments Laws, the Measures for the Implementation of Administration of Negotiable Instruments (《票據管理實施辦法》) (the "**PRC Negotiable Instruments Measures**") that impose any administrative liability on the endorser or its directors or senior management for the endorsement of bills without actual underlying transaction or debt relationship. Our PRC Legal Advisors are of the view that the endorsement of bills without actual underlying transaction or debt relationship does not constitute any of the conducts listed in Article 102 and Article 103 of the PRC Negotiable Instruments Laws, which may be subject to administrative penalties or criminal liabilities. Those conducts which are subject to administrative penalties or criminal liabilities under Article 102 of the PRC Negotiable Instruments Laws include (i) forging or altering a negotiable instrument; (ii) deliberately using forged or altered negotiable instruments; (iii) the act of issuing dishonourable checks or deliberately issue checks of which the signature or seal does not tally with the signature or seal in the correct name pre-submitted for counter-checking; (iv) issuing drafts or promissory notes without reliable sources of funds in order to obtain money by deception; (v) drawer of drafts or promissory notes making false recordings at the time of issuing the relevant drafts or promissory notes in order to obtain property or money by deception; (vi) using negotiable instruments of others or deliberately use negotiable instruments overdue or voided in order to obtain property and money by deception; and (vii) payor has committed one of the aforesaid acts in vicious collaboration with the drawer or holder.	Our Group has ceased to extend any advance by endorsement of bills since December 28, 2021. To prevent reoccurrence of this non-compliance incident, our Group has adopted the following internal control measures to prevent recurrence of such non-compliance incident: (i). implementation of internal guidelines and policies for (a) approving, reporting and monitoring bills transactions, and (b) prohibiting issue, acquisition or endorsement of bills without underlying transactions or debt relationships; (ii). arranged our PRC Legal Advisors to provide training materials to our Group's finance department, members of the senior management of the Company and all Directors (including the proposed independent non-executive Directors) regarding the PRC Negotiable Instruments Laws and the PRC Negotiable Instruments Measures, and the relevant interpretation and legal compliance in relation thereto; (iii). Mr. Shen Haifeng, the chief financial officer shall review and approve all applications for bills transactions exceeding the amount of RMB500,000 together with the relevant underlying agreements and assess the genuineness of the information contained in the applications. For the qualifications and experience of Mr. Shen, please refer to the section headed "Directors and Senior Management" in this prospectus; and	Our Directors are of the view that the non-compliance incident would not have any material and adverse impact on our operation or financial condition after taking into account (i) the legal advice from our PRC Legal Advisors; (ii) as of the Latest Practicable Date, all the non-trade other receivables due from Linuo Group and Linuo Investment as of December 31, 2021 have been subsequently settled and our Group did not earn any interests or proceeds from the Advances Arrangement during the Track Record Period; and (iii) that we have ceased to extend any advance by endorsement of bills since December 28, 2021.

Non-compliance incident	Reasons for the non-compliance	Legal consequences and maximum penalty	Rectification actions taken	Potential operational and financial impact
According to Article 73 of the General Lending Provisions issued by the People's Bank of China (the "**PBOC**") (《中國人民銀行貸款通則》) (the "**General Lending Provisions**"), the PBOC may impose on the non-compliant lender a fine of one to five times the income received by the lender from such loans. Our PRC Legal Advisors are of the view that the Advances Arrangement may be deemed as private loan relationship with Linuo Group and Linuo Investment.		According to the telephone consultation by our PRC Legal Advisors to the Wuhan Branch of the People's Bank of China (the "**Wuhan PBOC**"), the staff of Wuhan PBOC confirmed that the PBOC generally does not impose administrative penalty on endorsement of bills without actual underlying transaction. In addition, the Company has further made a written submission setting out the details of the Advances Arrangement to the Wuhan Branch of the PBOC through the Office of the Leading Group for Listing Affairs of Hubei Province (湖北省企業上市工作領導小組辦公室) and sought their view and guidance as to the implication of the Advances Arrangement from a regulator's perspective. On December 6, 2022, the Wuhan PBOC formally issued a written reply which confirmed that subsequent to January 1, 2021 and up to the date of the written reply (during which the Advances Arrangement occurred), it had not imposed any administrative penalty on Wuhan Youji (as a result of, including but not limited to, the Advances Arrangement). According to Article 3 of the PRC Negotiable Instruments Measures, the PBOC is the competent authority governing and administering negotiable instruments. Wuhan PBOC, as a local branch of the PBOC, operates under the direct instructions of the PBOC to perform the functions of the PBOC within Hubei Province. Based on the above, our PRC Legal Advisors are of the view that the risk of our Group and our directors and senior management being subject to administrative penalty for the Advances Arrangement by the PBOC is remote. Our PRC Legal Advisors are of the view that the Advances Arrangement may be deemed as private loan relationship with Linuo Group and Linuo Investment. According to the Article 73 of the General Lending Provisions, for such private loan, the PBOC may impose a fine on the lending party of between 100 and 500 per cent of its illegal proceeds, and concurrently, abolish the private loan. As confirmed by our Directors, our Group did not earn any interests or proceeds from the Advances Arrangement during the Track Record Period. Though the private loan did not comply with the General Lending Provisions, as the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases have confirmed the validity of the private loan with certain qualifications, our PRC Legal Advisors are of the view that the risk of our Group being subject to administrative penalty under the General Lending Provisions by the PBOC is remote.	(iv). our Group's finance department shall conduct a monthly review of all the bills transaction processed by our Group and report any irregularities or suspicious transactions to the chief financial officer and our Board.	

The 816 Incident

On August 16, 2022, our employees reported an accidental fire at the epichlorohydrin tank storage sector of our Wuhan Production Plant (the "**816 Incident**"). Epichlorohydrin is a type of raw material primarily used for the manufacturing of chloro-alcohol rubber and resin under our other fine chemical products segment. We have one epichlorohydrin tank at our Wuhan Production Plant to store epichlorohydrin, which was put into use in December 2015. During the Track Record Period, we only used a total amount of approximately 1,337.8 tons of epichlorohydrin for our manufacturing. Therefore, epichlorohydrin served minimal purpose for the manufacturing of our products.

During the filling process of epichlorohydrin, the hot weather caused flammable gases to accelerate evaporation and accumulate, and inadequate anti-static measures during the filling process resulted in a flash explosion and fire in the epichlorohydrin tank. Wuhan Youji immediately called for standby fire engines at our Wuhan Production Plant at the onset of the 816 Incident to extinguish the fire, undertook safety and security measures to evacuate all personnel, and restricted access to the premises. Open flame was extinguished shortly after, and there were no injuries or significant property damages as a result of the 816 Incident. We voluntarily reported the 816 Incident immediately to the Wuhan Municipal Qingshan District Emergency Management Bureau (武漢市青山區應急管理局) (the "**Wuhan Qingshan EMB**") on the same day. The Wuhan Qingshan EMB conducted an onsite inspection on August 16, 2022 and issued its decision letter on August 17, 2022 titled the Qingshan Yingji Xianjue [2022] No. 03-3 ((青)應急現決[2022]03-3號, the "**On-site Decision**"), which required Wuhan Youji to temporarily suspend its production at the Wuhan Production Plant and restrict access to the tank storage area. The restricted premises were approximately 5,000 sq.m.

We strictly followed the instructions provided by the Wuhan Qingshan EMB, including suspension of production at our Wuhan Production Plant. In addition, we undertook immediate procedures and actions to re-emphasize and further supplement our internal guidelines and policies to ensure that (i) all flammable liquids are properly stored and kept away from fire and heat sources; (ii) only non-sparking tools and explosion-proof electrical appliances and equipment are used at the warehouse where hazardous chemicals are stored; (iii) anti-static measures are fully adopted to prevent accumulation and discharge of static electricity; and (iv) preventive measures are strictly implemented to prevent steam leakage and to avoid contact with contraindicated substances.

Furthermore, we conducted internal risk assessment to identify specific safety risks to ensure (i) the sufficiency of our safety training; (ii) the prevention of static discharge and fire risk; (iii) our emergency incident response capability; and (iv) our ability to use specialized equipment during an outbreak of emergency incidents. We also provided further safety education and training to our production staff at all of our production sites to enhance our safety measures and to improve our staff's ability to respond to emergency incidents. Based on (i) the sufficient safety trainings courses and training performance reviews conducted in accordance with the Safety Training and Education Management Policy (《安全培訓教育管理制度》); (ii) the routine and specific inspections and daily operating parameter monitoring conducted in accordance with the Safety Inspection and Hidden Danger Screening and Management Policy (《安全檢查和隱患排查治理制度》); (iii) the prompt and responsive emergency plans implemented and the routine safety drills conducted in accordance with the Comprehensive Emergency Plan (《綜合應急預案》) and Hazardous Chemicals Safety Management Policy (《危險化學品安全管理制度》); and (iv) the specialized and professional team staffed in accordance with the Fire Control Team On-duty Responsibilities (《消防控制室值班人員職責》). As of the Latest Practicable Date, the 816 Incident was concluded and no fine or punishment was imposed on our Group by the regulatory authorities. Our Internal Control Consultant advises that there was no internal control weaknesses which led to the 816 Incident and there is no potential impact of the 816 Incident on our Group's ESG measures and policies.

To prevent potential re-occurrences, we immediately implemented the rectification measures pursuant to the On-site Decision; transported other storage tanks from the affected premises; and performed comprehensive and in-depth investigation of potential safety hazards. In addition, we strengthened our internal controls including (i) refined operation procedures of the loading and unloading of hazardous chemicals in conjunction with strictly monitored manufacturing process; (ii) notices issued to re-emphasize the importance of safety management and key points of safety production under high temperature; (iii) trainings specifically designed to strengthen safe production awareness; and (iv) emergency drills specifically organized to improve emergency response ability.

Except for the On-site Decision, there was no administrative penalty (including fines, suspension of license, reduction of qualification level and revocation of license, etc.), compulsory administrative measures, or administrative, civil or criminal liability imposed on Wuhan Youji in relation to the 816 Incident as of the date of this prospectus. There was no prior record of operational incident that triggered government investigation or sanction.

On September 5, 2022, the Wuhan Qingshan EMB issued the rectification review decision letter titled the Qingshan Yingji Fucha [2022] No. 05049 ((青)應急複查[2022]05049號, the "**Review Decision**"), which concluded that Wuhan Youji has implemented the rectification measures in accordance with the regulatory requirements, and our Wuhan Production Plant was permitted to resume production. Except for the manufacturing suspension of certain other fine products due to the repair of the epichlorohydrin tank, our Wuhan Production Plant fully resumed its normal business operations and products manufacturing on September 5, 2022. The epichlorohydrin tank was replaced and manufacturing was fully resumed by January 2023.

We believe this temporary production suspension does not have a material adverse impact on our business operations and financial conditions because (i) we maintained sufficient inventory to satisfy our sales orders and expected market demands; (ii) our average daily sales volume during the suspension period was at the same level with the average daily sales volume during the six months ended June 30, 2022; and (iii) we modified our planning and schedule to adjust to our production needs for the remaining periods in 2022. First, the use of epichlorohydrin accounts for a relatively small amount of the production of our other fine chemical products, and based on our observations on our inventory consumptions since August 2022, our inventory of other fine chemical products is able to meet the expected market demand until our epichlorohydrin tank is replaced. While our Wuhan Production Plant's operation was suspended from August 16 to September 5, 2022, the temporary suspension did not materially affect our ability to meet our sales orders due to our sufficient inventory at our Wuhan Production Plant. Specifically, Wuhan Production Plant maintained approximately 18,729 tons in inventory of its major products immediately before the 816 Incident. Based on the average sales volume of approximately 455 tons per day for the first half of 2022, this inventory level is sufficient to make up for the production suspension and meet expected demands during the production suspension period. As of September 5, 2022 when we resumed production at our Wuhan Production Plant, the Wuhan Production Plant still maintained approximately 10,788 tons in inventory of its major products. Second, the temporary suspension of our Wuhan Production Plant did not materially affect our financial performance due to our ability to meet our sales demands. During the 21 days of temporary suspension period, we still maintained normal order placement and delivery with our customers. Lastly, in addition to the continued efficient operation of our Wuhan Production Plant, we postponed our annual maintenance originally planned in December 2022 to January 2023 to coordinate our production schedule to allocate additional production days for the calendar year.

The estimated direct economic loss caused by the 816 Incident was approximately RMB435,000, comprised of (i) the amount of epichlorohydrin stored in the tank valued at approximately RMB364,000; (ii) the carrying amount of the epichlorohydrin tank after amortization of approximately RMB65,000; and (iii) miscellaneous losses of approximately RMB6,000. As advised by our PRC Legal Advisors, the 816 Incident is likely to be regarded as a general accident by the competent authorities and the liable entity may be fined for no less than RMB300,000 but not exceeding RMB1,000,000 under the relevant PRC laws and regulations. Our PRC Legal Advisors' opinion is based on the following: (i) pursuant to the Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents promulgated (《生產安全事故報告和調查處理條例》) by the State Council of the People's Republic of China issued on April 9, 2007, production safety accidents are classified into four levels: especially serious accident, major accident, more accidents, and general accident, depending on the casualties or direct economic losses. The general accident refers to an accident that causes less than three casualties, or less than 10 serious injuries, or less than RMB10,000,000 of direct economic loss; (ii) pursuant to the Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) amended by the Standing Committee of the National People's Congress on June 10, 2021, the liable entity for the general accident shall be imposed of a fine for no less than RMB300,000 and not exceeding RMB1,000,000; and (iii) according to the Company's confirmation, the 816 Incident did not cause any casualties or injuries, and the estimated direct economic loss was approximately RMB435,000. According to the interview with the Wuhan Qingshan EMB on November 10, 2022, the government authority confirmed that as of the date of the interview: (i) there were no administrative penalties imposed on Wuhan Youji; (ii) the rectification measures have been satisfactorily completed; and (iii) after replacing the epichlorohydrin tank and finishing the check procedure of the competent authorities, Wuhan Youji can fully resume its normal business operations and products manufacturing. According to the confirmation letter issued by the Wuhan Qingshan EMB on November 1, 2022, subsequent to January 1, 2022 and up to the confirmation letter issuance date (during which the 816 Incident occurred), there was no material or severe manufacturing safety accidents incurred by Wuhan Youji. As of the Latest Practicable Date, there was no litigation or claim raised by any party in relation to the 816 Incident.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management

With the growth and expansion of our operations, potential risks associated with our business increase as well. In order to identify, assess and control the risks that may impede our business growth, we designed and implemented risk management policies to address various potential risks identified in relation to our operations, including operational risks, credit risks, market risks, financial risks and legal risks. Our risk management policies set forth procedures to identify, analyze, categorize, mitigate and monitor various risks as well as the reporting hierarchy of risks identified in the course of our operation. Each of our business departments and functions is responsible for identifying and evaluating the risks relating to its area of operations and implementing our risk management and internal control systems. Our Audit Committee is responsible for overseeing our management in the implementation of our overall risk management and internal control systems and assessing the efficiency of our risk management and internal control systems. Key personnel of our internal control team include one internal audit manager and two internal auditors with extensive experience in the professional field.

Internal control

Our Board takes the responsibility to ensure that we maintain sound and effective internal controls to safeguard our Shareholders' investment and our assets. We have adopted, or expect to adopt before the Listing, a series of internal control policies, procedures and programs designed to provide reasonable assurance to achieve these objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. In particular, these measures include the following:

- we have adopted internal control system and procedures to cover corporate governance, risk management, business operations, and legal and compliance matters;

- we will assess and monitor the due implementation of our risk management and internal control system and procedures by the relevant departments through regular reviews and inspections;

- we will provide internal trainings to our staff to enable them to adhere to the internal control system and procedures;

- we will establish an audit committee comprising three independent non-executive Directors. The terms of reference to be adopted by the audit committee set out its duties and obligations to ensure our Group's compliance with applicable laws and regulations. In this regard, the audit committee will be authorized under its terms of reference to review any arrangements which may cause potential irregularities in financial reporting, internal control or other matters; and

- we have appointed BOCOM International (Asia) Limited as our Company's compliance adviser pursuant to the Listing Rules to ensure that, among other things, we are properly guided and advised as to the compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines.

We have taken steps to ensure the effective implementation of our internal control system by establishing a team to organize and review our internal control system and by providing guidance to our Directors, senior management and employees with respect to our internal control policies and the duties and responsibilities of directors and management of listed companies under the Listing Rules and other applicable laws and regulation.

OVERVIEW

Upon Listing, our Board will comprise eight Directors, including two executive Directors, three non-executive Directors and three independent non-executive Directors, namely:

Name	Age	Date of joining our Group	Date of appointment as Director	Position(s)	Roles and responsibilities
Executive Directors					
Mr. Zou Xiaohong (鄒曉虹)	64	July 1981	March 25, 2022	Executive Director and chairman of the Board	Responsible for the overall strategic and major operational decision-making of our Group
Mr. Chen Ping (陳平)	61	October 2010	September 23, 2016	Executive Director and joint company secretary	Responsible for the Board affairs, corporate governance and capital operations of our Group
Non-executive Directors					
Mr. Gao Lei (高雷)	40	April 2010	September 23, 2016	Non-executive Director	Responsible for shareholder related matters and advising on corporate governance and internal control of our Group
Mr. Shen Yingming (申英明)	65	September 2004	September 23, 2016	Non-executive Director	Responsible for shareholder related matters and advising on corporate governance and internal control of our Group
Ms. Li Deye (李德曄)	57	March 25, 2022	March 25, 2022	Non-executive Director	Responsible for providing advice on operation and management of our Group

Name	Age	Date of joining our Group	Date of appointment as Director	Position(s)	Roles and responsibilities
Independent Non-executive Directors					
Dr. Liu Zhongdong (劉鐘棟)	65	Listing Date	Listing Date	Independent non-executive Director	Responsible for providing independent advice on the Group's technology and research
Dr. Yuan Kang (袁康)	35	Listing Date	Listing Date	Independent non-executive Director	Responsible for providing independent advice on the operations and management of our Group
Mr. Liu Kai Yu Kenneth (廖啟宇)	54	Listing Date	Listing Date	Independent non-executive Director	Responsible for providing independent advice on the operations and management of our Group

Our senior management team, in addition to the executive Directors listed above, comprises the following:

Name	Age	Date of joining our Group	Date of appointment as senior management	Existing position(s) in our Group	Roles and responsibilities
Mr. Zhou Xu (周旭)	54	August 1988	March 25, 2022	Chief executive officer	Responsible for the operations and management of our Group
Mr. Shen Haifeng (沈海峰)	53	December 2009	March 25, 2022	Chief financial officer	Responsible for the financial management, financing and investment activities of our Group

Save as may be disclosed below, none of our Directors and members of our senior management are related to the other Directors or members of senior management.

DIRECTORS

Executive Directors

Mr. Zou Xiaohong (鄒曉虹), aged 64, was appointed as our executive Director and chairman of the Board on March 25, 2022. Mr. Zou has also been the chairman of Wuhan Youji since May 2015, and the director of Qianjiang Xinyihong and Youji HK since June 2015 and June 2016, respectively. Mr. Zou is primarily responsible for the overall strategic and major operational decision-making of our Group.

Mr. Zou has over 42 years of experience in the organic chemical industry and has been working for our Group since his graduation. Mr. Zou joined our Group in July 1981 as a technician of Wuhan Youji and re-joined in September 1985 after three years study in Wuhan Gedian Chemical Plant Staff University (武漢市葛店化工廠職工大學), with his last position as the chairman since May 2015. Except for working experience in our Group, Mr. Zou also served other companies. Mr. Zou has been the chairman at Yingcheng Wuhan Organic Material Co. Ltd. (應城市武瀚有機材料有限公司) ("**Yingcheng Wuhan Organic**") and HUBEI SINEM FLAVOR CO., LTD. (湖北西尼美香料有限公司) ("**Hubei Sinem**") since July 2014 and February 2018, respectively. Since October 2018, he has served as the vice chairman and a director at Shandong Keyuan Pharmaceutical Co., Ltd. (山東科源製藥股份有限公司), a pharmaceutical company that is listed on the Shenzhen Stock Exchange (stock code: 301281), where he is mainly responsible for the company's overall management.

Mr. Zou was awarded the May 1st Labor Medal (五一勞動獎章) by Wuhan Federation of Trade Union (武漢市總工會) in April 2002 and was granted with the Special Government Allowance (政府專項津貼) by Wuhan Municipal People's Government and Wuhan Municipal Committee of the Communist Party of China (中國共產黨武漢市委員會) in December 2008. In addition, Mr. Zou was recognized as the 15th Model Worker of Wuhan City (武漢市第十五屆勞動模範) by Wuhan Municipal People's Government in April 2012 and the Middle-aged and Youth Experts with Outstanding Contribution (有突出貢獻中青年專家) by Hubei Provincial People's Government and Hubei Provincial Committee of the Communist Party of China (中國共產黨湖北省委員會) in January 2013.

Mr. Zou was the general manager of Wuhan Organic Import & Export Co., Ltd. (武漢有機進出口有限公司) within 12 months prior to its dissolution by deregistration for change of business strategy in July 23, 2011. Mr. Zou confirms that, to the best of his knowledge, (i) the dissolved company was solvent immediately prior to its dissolution and had no outstanding claim or liabilities; (ii) he has not received any notification in respect of penalty, acting or proceeding from PRC authorities as a result of the dissolution; and (iii) he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution.

Mr. Zou obtained a tertiary degree in chemical machinery from Wuhan Gedian Chemical Plant Staff University in the PRC in September 1985. He holds the qualification of senior operation manager (高級經營師) granted by Department of Labor and Social Security of Hubei Province (湖北省勞動和社會保障廳) (currently known as Department of Human Resources and Social Security of Hubei Province (湖北省人力資源和社會保障廳)) in December 2002, the qualification of professorate senior engineer (正高級高級工程師) granted by Department of Human Resources and Social Security of Hubei Province in March 2015.

Mr. Chen Ping (陳平), aged 61, was appointed as our Director on September 23, 2016 and was re-designated as our executive Director on March 25, 2022. Mr. Chen joined our Group in October 2010 as the board secretary and has served as a director of Wuhan Youji since August 2016. He has also been the director of Hebei Kangshi since its establishment in January 2019. He is primarily responsible for the Board affairs, corporate governance and capital operations of our Group.

Mr. Chen has over 26 years of experience of corporate management. Prior to joining our Group, he served as a deputy general manager at Shenzhen Asia Link Investment Co., Ltd. (深圳市亞潮投資有限公司) (currently known as Shenzhen Hengrun Taifu Investment Co., Ltd. (深圳市恒潤泰富投資有限公司)) from July 1997 to September 1999, responsible for investment and financing management; Wuhan Plastics Industrial Group Co., Ltd. (武漢塑料工業集團股份有限公司) (currently known as Hubei Radio & Television Information Network Co., Ltd. (湖北省廣播電視信息網絡股份有限公司)), a company listed on the Shenzhen Stock Exchange (stock code: 000665); and the general manager at Wuhan Xianglong Trading Co., Ltd. (武漢祥龍貿易有限公司) (currently known as Wuhan Xianglong New Energy Co., Ltd. (武漢祥龍新能源有限公司)) from August 2003 to November 2005, responsible for the overall management of the company. From November 2006 to July 2008, he worked at Wuhan Fengfan Surface Engineering Co., Ltd. (武漢風帆表面工程股份有限公司) as a director and a standing vice manager. From August 2008 to September 2010, Mr. Chen served as the international affairs department head of Hunan Nonferrous Metals Corporation Limited (湖南有色金屬股份有限公司), where he was mainly responsible for company's international affairs. He also served as the director at HNC (Canada) Antimony Mine Limited and BEAVER BROOK ANTIMONY MINE INC. from August 2009 to September 2010.

Mr. Chen graduated from Beijing Institute of Foreign Trade (北京對外貿易學院) (currently known as University of International Business and Economics (對外經濟貿易大學)) in the PRC in July 1983, majoring in English for Foreign Trade. He obtained a bachelor's degree in economics from Beijing Institute of Foreign Trade in September 1983 and a master's degree in economics from Fudan University (復旦大學) in the PRC in July 1990. He holds the qualification of economist granted by Wuhan Municipal Personnel Bureau (武漢市人事局) (currently known as Wuhan Municipal Human Resources and Social Security Bureau (武漢市人力資源和社會保障局)) in October 2001.

Non-executive Directors

Mr. Gao Lei (高雷), aged 40, was appointed as our Director on September 23, 2016 and was re-designated as our non-executive Director on March 25, 2022. Mr. Gao joined our Group in April 2010 and has been serving as a director of Wuhan Youji since June 2016. He is primarily responsible for shareholder related matters and advising on corporate governance and internal control of our Group.

Mr. Gao has more than ten years of experience in investment management. Prior to joining our Group, Mr. Gao worked as general manager assistant at Shanghai Sanwei Investment Development Co., Ltd. (上海三威投資發展有限公司), a company principally engaged in investment management, where he was responsible for investment management. Since December 2013, Mr. Gao has been serving as the general manager at Shanghai Linuo Industry & Trade Co., Ltd. (上海力諾工貿股份有限公司), a company in the property lease and management industry, where he was responsible for its overall management. Since April 2017, he has been serving as a director at Linuo Sunshine (Hong Kong) Investment Limited (力諾陽光(香港)投資有限公司), an investment company.

Mr. Gao was a director of Hong Kong Linuo Pharmaceutical Co., Limited (香港力諾藥業股份有限公司) prior to its dissolution by deregistration for change of business strategy on October 16, 2015. Mr. Gao confirms that, to the best of his knowledge, (i) the dissolved company was solvent immediately prior to its dissolution and had no outstanding claim or liabilities; (ii) he has not received any notification in respect of penalty, acting or proceeding from Hong Kong authorities as a result of the dissolution; and (iii) he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution.

Mr. Gao obtained his master's degree of business administration from National University in the United States in April 2010.

Mr. Shen Yingming (申英明), aged 65, was appointed as our Director on September 23, 2016 and was re-designated as our non-executive Director on March 25, 2022. He is mainly responsible for shareholder related matters and advising on corporate governance and internal control of our Group.

Mr. Shen has over 30 years of experience in business administration. Prior to joining our Group, from March 1994 to November 2001, he served as the general manager of Jinan Sanwei Glass Products Co. Ltd. (濟南三威玻璃製品有限公司). From November 2001 to January 2010, he worked at Wuhan Linuo Solar Energy Group Co., Ltd. (武漢力諾太陽能集團股份有限公司) (currently known as Hongfa Technology Co., Ltd. (宏發科技股份有限公司)), a company principally engaged in solar energy industry then and listed on the Shanghai Stock Exchange (stock code: 600885), with his last position as chairman of the board of supervisors. Since January 2010, he has been the chairman of the board of supervisors at Linuo Group Holdings Co., Ltd. (力諾集團股份有限公司), a solar thermal products and photovoltaic products manufacturer. In the meanwhile, he has also been the supervisor at Shandong Keyuan Pharmaceutical Co., Ltd., a pharmaceutical company that is listed on Shenzhen Stock Exchange (stock code: 301281).

Mr. Shen was a director, supervisor or general manager of the following PRC companies prior to their dissolution by deregistration:

Name of company	Nature of business	Date of dissolution	Reason for dissolution
Linuo Solar Energy Technology (Taiyuan) Co Ltd (translated from 力諾光能科技(太原)有限公司)	Consultancy service	December 15, 2021	Change of business strategy
Hubei Twin Tigers Coating Engineering Co., Ltd. (湖北雙虎塗裝工程有限公司)	Construction	November 19, 2019	Change of business strategy
Wuhan Linuo Investment Co., Ltd. (武漢力諾投資有限公司)	Investment	October 16, 2019	Tax planning

Name of company	Nature of business	Date of dissolution	Reason for dissolution
Shaanxi Linuo Glass Vessel Co Ltd (陝西力諾玻璃製品有限公司)	Manufacturing	August 17, 2017	Change of business strategy
Wuhan Twin Tigers Anticorrosion Coating Co., Ltd. (武漢雙虎防腐塗料有限公司)	Manufacturing	June 30, 2017	Change of business strategy
Wuhan Twin Tigers Powder Coating Co Ltd (translated from 武漢雙虎粉末塗料有限公司)	Retail	May 26, 2015	Change of business strategy
Hanyang Linuo Industry and Trade Co., Ltd. (漢陽力諾工貿有限公司)	Trade	March 20, 2015	Change of business strategy

Mr. Shen confirms that, to the best of his knowledge, (i) each of the dissolved companies above was solvent immediately prior to its dissolution and had no outstanding claim or liabilities; (ii) he has not received any notification in respect of penalty, acting or proceeding from the PRC authorities as a result of the dissolution; and (iii) he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution.

Mr. Shen obtained the professional certificate of completing economic management courses delivered by Shandong University (山東大學) in the PRC in October 1997. In March 2006, he obtained the certificate of completing the graduate courses of masters of business administration granted by the Training College of Renmin University of China (中國人民大學) in the PRC.

Ms. Li Deye (李德曄), aged 57, was appointed as our non-executive Director on March 25, 2022. She is mainly responsible for providing advice on operation and management of our Group.

Ms. Li has over 25 years of experience in supply chain management and business administration. She had extensive experience serving the subsidiaries of Linuo Group Holdings Co., Ltd. (力諾集團股份有限公司), a solar thermal products and photovoltaic products manufacturer, including serving as the purchasing director of Shandong Sanli Industrial Group Co., Ltd. (山東三力工業集團有限公司) from December 1998 to November 2009, the supply chain director of Shandong Linuo Electric Power Co., Ltd. (山東力諾電力股份有限公司) from November 2009 to December 2015, and the general manager and chairperson of Shandong Linuo Photovoltaic Hi-Tech Co., Ltd. (山東力諾光伏高科技有限公司) from November 2017 to January 2022. She has also been the supply chain director and the resources management director at Linuo Group Holdings Co., Ltd. from January 2016 to October 2017 and since February 2022, respectively.

Ms. Li was a manager of Jinan Dexincheng Trading Co., Ltd. (濟南德信誠商貿有限公司) prior to its dissolution by deregistration for change of business strategy on June 11, 2019. Ms. Li confirms that, to the best of her knowledge, (i) the dissolved company was solvent immediately prior to its dissolution and had no outstanding claim or liabilities; (ii) she has not received any notification in respect of penalty, acting or proceeding from PRC authorities as a result of the dissolution; and (iii) she is not aware of any actual or potential claim which has been or will be made against her as a result of the dissolution.

Ms. Li obtained a bachelor's degree of administrative management and a completion certificate of business administration from Shandong University (山東大學) in the PRC in October 2009 and June 2011 respectively. In April 2008, Ms. Li was qualified as a senior certified purchasing professional (註冊採購師) by CHC Manager Human Resource Committee of China High-technology Education Working Committee (CHC全國高科技教工委管理人才專業委員會).

Independent non-executive Directors

Dr. Liu Zhongdong (劉鐘棟), aged 65, will be our independent non-executive Director upon Listing, and be mainly responsible for providing independent advice on the Group's technology and research.

Dr. Liu has over 34 years of experience in academic research of food additives. He worked at Zhengzhou Grain College (鄭州糧食學院) (currently known as Henan University of Technology (河南工業大學)) since August 1989, with his last position as a level-2 professor.

Dr. Liu was appointed as a member or an expert of various food additives related associations, including the member of the First National Food Safety Standards Review Committee (第一屆食品安全國家標準審評委員會) in January 2010, an expert of the "Tri-new" Foods Administrative Licensing Review Experts Pool ("三新"食品行政許可評審專家) in April 2021 and the secretary-general of the Professional Committee of China Food Additives and Ingredients Association (中國食品添加劑和配料協會專業委員會) since 2002, a member of Chinese delegation to the International Annual Meeting of Institute of Food Technologies (國際食品技術及國際展會, IFT) since 2005 and a member of Chinese delegation in Codex Committee on Food Additives of the Food and Agriculture organization of the United Nations and World Health Organization since 2007.

Dr. Liu obtained his master's degree in engineering from Zhengzhou Grain College (鄭州糧食學院) in the PRC in June 1989 and his doctorate degree in science from Xiamen University (廈門大學) in the PRC in September 2006, majoring in organic chemistry.

Dr. Yuan Kang (袁康), aged 35, will be our independent non-executive Director upon Listing, and be mainly responsible for providing independent advice on the operations and management of our Group.

Dr. Yuan has been a lecturer and an associate professor at Law School of Wuhan University (武漢大學法學院) from February 2016 to February 2019 and since March 2019, respectively.

Since December 2020, Dr. Yuan served as an independent director at Hubei Color Root Technology Co., Ltd. (湖北麗源科技股份有限公司), a reactive dyes manufacturer, whose shares were delisted from National Equities Exchange and Quotations (stock code: 836620) in February 2018. Since February 2021, he served as an independent director at Shandong Keyuan Pharmaceutical Co., Ltd., a pharmaceutical company that is listed on Shenzhen Stock Exchange (stock code: 301281). Since April 2021, Dr. Yuan has also been an independent director at Hubei Zhenhua Chemical Co., Ltd. (湖北振華化學股份有限公司), a chromium salt and vitamin K3 producer, whose shares are listed on Shanghai Stock Exchange (stock code: 603067.SH), where he is mainly responsible for providing independent advice on the operations and management.

Dr. Yuan obtained his bachelor's degree in law and doctorate degree in economic law from Wuhan University (武漢大學) in the PRC in June 2010 and December 2015 respectively. Dr. Yuan received his Legal Professional Qualification Certificate (法律職業資格證書) from Ministry of Justice of the People's Republic of China (中華人民共和國司法部) in August 2010 and the Qualification Certificate for Independent Directors of Listing Companies (上市公司獨立董事資格證書) from Shanghai Stock Exchange in April 2021.

Mr. Liu Kai Yu Kenneth (廖啟宇), aged 54, will be our independent non-executive Director upon Listing and be mainly responsible for providing independent advice on the operations and management of our Group.

Mr. Liu is an experienced audit professional. Prior to joining our Group, he served as a junior accountant in the audit department of Kwan Wong Tan & Fong (merged with Deloitte Touche Tohmatsu in 1997) from May 1994 to August 1994, an accountant at Ernst & Young from August 1994 to May 1996, an assistant manager of the audit and control division of the Hong Kong branch of Banque Nationale de Paris from August 1996 to September 1997, and an audit officer in the internal audit department of Kowloon-Canton Railway Corporation from January 2000 to September 2000. After that, he worked at VC CEF Capital Limited (currently known as VC Capital Limited) from September 2000 to May 2003, with his last position as an assistant manager in the corporate finance department. From June 2004 to October 2016, he worked at Hong Kong Exchanges and Clearing Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 388), with his last position as assistant vice president in IPO Transactions, Listing & Regulatory Affairs Division, responsible for vetting initial public offering applications.

Mr. Liu has also served as an independent non-executive director in Fourace Industries Group Holdings Limited (科利實業控股集團有限公司), a personal care and electrical appliances provider listed on the Stock Exchange of Hong Kong (stock code: 1455), since August 2020; Hangzhou Tigermed Consulting Co. Ltd. (杭州泰格醫藥科技股份有限公司), a clinical research services provider listed on the Stock Exchange of Hong Kong (stock code: 3347) and ChiNext of the Shenzhen Stock Exchange (stock code: 300347), since April 2020; Tianli Education International Holdings Limited (天立教育國際控股有限公司), an education service provider listed on the Stock Exchange of Hong Kong (stock code: 1773), since June 2018; Sisram Medical Ltd., an energy-based medical esthetic devices provider listed on the Stock Exchange of Hong Kong (stock code: 1696), since August 2017.

Mr. Liu obtained his bachelor of engineering degree in mechanical engineering from Imperial College of Science, Technology and Medicine of the University of London in the United Kingdom in August 1991. He received his master of business administration degree in international banking and finance from the University of Birmingham in the United Kingdom in December 1998. Mr. Liu has been a member of the Hong Kong Institute of Certified Public Accountants since July 1999 and a fellow of the Association of Chartered Certified Accountants since April 2004.

Save as disclosed above, none of our Directors have held any other directorships in listed companies during the three years immediately preceding the date of this prospectus.

Disclosure Required under the Listing Rules

Rule 3.09D of the Listing Rules

Each of our Directors confirms that he or she (i) has obtained the legal advice referred to in Rule 3.09D of the Listing Rules on March 25, 2022, and (ii) understands his or her obligations as a director of a listed issuer under the Listing Rules.

Rule 3.13 of the Listing Rules

Each of the independent non-executive Directors confirms (i) his or her independence as regards each of the factors referred to in Rule 3.13(1) to (8) of the Listing Rules; (ii) that he or she has no past or present financial or other interest in the business of our Company or its subsidiaries or any connection with any core connected person of our Company; and (iii) that there are no other factors that may affect his or her independence at the time of his or her appointments.

Rule 8.10 of the Listing Rules

As of the Latest Practicable Date, Mr. Zou Xiaohong was the chairman of Yingcheng Wuhan Organic and Hubei Sinem. Yingcheng Wuhan Organic is principally engaged in the manufacturing and sales of cinnamaldehyde (which can be used as flavorings and food adulterant), cinnamyl alcohol (which can be used in perfumery and as a deodorant) and cinnamic acid (which can be used in flavorings and certain pharmaceuticals), and spices made from cinnamaldehyde, cinnamyl alcohol and cinnamic acid. For the year ended December 31, 2023, Yingcheng Wuhan Organic had a revenue of RMB65.3 million. As of the Latest Practicable date, Hubei Sinem had yet to commence operation. It is intended to carry out the same principal business as Yingcheng Wuhan Organic, manufacturing cinnamaldehyde, cinnamyl alcohol, cinnamic acid and spices made from cinnamaldehyde, cinnamyl alcohol and cinnamic acid (collectively, the "**Relevant Businesses**"). Our Directors are of the view that the Relevant Businesses are clearly delineated from our Group and that there will be no direct or indirect competition of the Relevant Businesses with our principal business for the following reasons:

(a) *Different nature of products*. The products offered by the Relevant Businesses are different from those offered by our Group. On the one hand, we focus on the manufacture of toluene oxidation and chlorination products, benzoic acid ammonification products and other fine chemical products. On the other, each of Yingcheng Wuhan Organic and Hubei Sinem focuses on the manufacture of cinnamaldehyde, cinnamyl alcohol and cinnamic acid, which as demonstrated above has different practical use than our products. In terms of production process, cinnamaldehyde, cinnamyl alcohol and cinnamic acid are regarded as downstream products of our products, as they are directly and indirectly manufactured by the aldol condensation of benzaldehyde and acetaldehyde. The aldol condensation is an organic reaction process in which benzaldehyde reacts with acetaldehyde to generate cinnamaldehyde, which can be further synthesized to produce cinnamyl alcohol (through reduction) and cinnamic acid (through oxidation). The manufacturing of these products are typically under room temperature and ambient pressure, while most products of our Group are generated under higher temperature and higher pressure. In view of the different nature, use and production process, our Directors believe there will be no direct or indirect competition between products of the Relevant Businesses and ours.

(b) *Different target customers*. Due to the different use of our products and the downstream nature of the Relevant Businesses' products, the target customers of our Group and the Relevant Businesses are clearly distinguished. As disclosed in "Business — Sales and Customers," we sell our products directly to end users such as chemical companies (including Yingcheng Wuhan Organic), food producing and processing companies, pharmaceutical companies and animal feed producing companies in the PRC and global markets, as well as distribute and sell our products through our distributors, who we expect will distribute or resell our products to their distributors and/or end users in the PRC and global markets. However, Yingcheng Wuhan Organic (and Hubei Sinem once it commences operation) sell their products to spice processing companies to produce, for example, appetite stimulants to animal feed manufacturers. For the years ended December 31, 2021, 2022 and 2023, 52, 54 and 56 of our customers also procured from Yingcheng Wuhan Organic products that are of a different nature from those of our Group. These overlapping customers, none of which are our major customers, contributed to 4.5%, 4.9% and 5.3% of our revenue for the same years, respectively.

(c) *Corporate governance structure*. As the chairman of Yingcheng Wuhan Organic and Hubei Sinem, Mr. Zou serves a primarily advisory and supervisory role in these companies, and is not involved in the daily management of their operations. The daily management of Yingcheng Wuhan Organic and Hubei Sinem are vested in their respective boards of directors and senior management, whose members (other than Mr. Zou) do not overlap with our Board and senior management. Furthermore, Mr. Zou is aware of his fiduciary duties as a Director which require that he must, among others, act in good faith for the benefit of our Company as a whole, and avoid conflicts between his personal interests (such as his interests in Yingcheng Wuhan Organic and Hubei Sinem) and the interests of our Company. In particular:

    (i) pursuant to our Articles of Association, unless otherwise provided, Mr. Zou shall not vote on any resolution approving any contract or arrangement or any other proposal in which he or any of his associates have a material interest (including his interest in Yingcheng Wuhan Organic and Hubei Sinem) nor shall Mr. Zou be counted in the quorum present at the meeting; and

    (ii) if Mr. Zou has material interests, he shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself from the Board meetings on matters in which he or his close associates have a material interest, unless his attendance or participation at such Board meeting is specifically requested by a majority of the independent non-executive Directors.

Save as disclosed above, each of our Directors confirms that as of the Latest Practicable Date, he/she did not have any interest in a business which competes or is likely to compete, directly or indirectly, with our business and requires disclosure under Rule 8.10 of the Listing Rules.

SENIOR MANAGEMENT

Our senior management are responsible for the day-to-day management and operation of our business.

Mr. Zhou Xu (周旭), aged 54, is the chief executive officer of our Company, primarily responsible for the operations and management of our Group. Mr. Zhou has also been the general manager of Wuhan Youji since June 2016.

Mr. Zhou has over 35 years of experience of toluene derivative products industry, with most of his time devoted to the development of our Group. He has been working continuously for our Group since August 1988, and was appointed as our chief executive officer on March 25, 2022.

Mr. Zhou obtained his tertiary degree in industrial management engineering from Wuhan University of Automotive Technology (武漢汽車工業大學) (currently known as Wuhan University of Technology (武漢理工大學)) in the PRC in June 1995 and his master's degree in economics from Party School of the Wuhan Municipal Committee of the Communist Party of China (中國共產黨武漢市委黨校) in the PRC in January 2002. Mr. Zhou was awarded the "Model Worker of Wuhan City (武漢市勞動模範)" by Wuhan Municipal People's Government (武漢市人民政府) in April 2015 and the Excellent Communist Party Member of Wuhan City "(武漢市優秀共產黨員)" by Wuhan Municipal Committee of the Communist Party of China (中國共產黨武漢市委) in June 2021.

Mr. Shen Haifeng (沈海峰), aged 53, is the chief financial officer of our Company, primarily responsible for the financial management, financing and investment activities of our Group. He also serves as a deputy general manager of Wuhan Youji, a director of Hebei Kangshi and a supervisor of multiple subsidiaries of our Group, including Qianjiang Xinyihong, Hubei Kangxin and Hubei Xinxuanhong.

Mr. Shen has more than 20 years of experience of financial management. Prior to joining our Group in 2009, Mr. Shen served as the financial manager at Huasheng Jiangquan Group Co., Ltd. (華盛江泉集團有限公司) from August 2003 to October 2005. He then served as the deputy director of audit center at Linuo Group Holdings Co., Ltd. (力諾集團股份有限公司) from December 2005 to July 2006 and the chief financial officer at Wuhan Linuo Chemical Group Co., Ltd. (武漢力諾化學集團有限公司) from August 2006 to November 2009, where he was responsible for overall financial management.

Mr. Shen obtained his bachelor's degree in economics majoring in planning statistics from Northeast Forestry University (東北林業大學) in July 1992. He was qualified as an auditor by the National Audit Office of the People's Republic of China (中華人民共和國審計署) in November 1996, an accountant by the Ministry of Finance of the People's Republic of China in May 1997 and a Certified Public Accountant by The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2004.

JOINT COMPANY SECRETARIES

Mr. Chen Ping (陳平), our executive Director, was appointed as one of our joint company secretaries on March 25, 2022. For the biographical details of Mr. Chen, please refer to “Directors — Executive Directors — Mr. Chen Ping (陳平)” in this prospectus.

Ms. Lai Ho Yan (賴浩恩) was appointed as one of our joint company secretaries on March 25, 2022. Ms. Lai is currently a manager of Corporate Services of Tricor Services Limited, where she is responsible for providing corporate secretarial and compliance services to listed companies at the Stock Exchange and other multinational, private and offshore companies. Ms. Lai has more than five years of experience in the company secretary profession.

Ms. Lai obtained her bachelor’s degree in business administration in financial services and master’s degree in corporate governance from The Hong Kong Polytechnic University in September 2016 and September 2020, respectively. She has been qualified as a Chartered Secretary, a Chartered Governance Professional, an associate of The Hong Kong Chartered Governance Institute (HKCGI) (formerly known as “The Hong Kong Institute of Chartered Secretaries” (HKICS)) and an associate of The Chartered Governance Institute (CGI) (formerly known as “The Institute of Chartered Secretaries and Administrators” (ICSA)) in the United Kingdom.

MANAGEMENT AND CORPORATE GOVERNANCE

Board Committees

Audit Committee

Our Board has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix C1 to the Listing Rules (the “**Corporate Governance Code**”). The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of our Group, review and approve connected transactions and provide advice and comments to the Board. The Audit Committee comprises Mr. Liu Kai Yu Kenneth, Dr. Liu Zhongdong, Dr. Yuan Kang, Mr. Gao Lei and Mr. Shen Yingming, with Mr. Liu Kai Yu Kenneth (being our independent non-executive Director with appropriate professional qualifications) as the chairperson.

Remuneration Committee

Our Board has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The Remuneration Committee comprises Mr. Liu Kai Yu Kenneth, Dr. Liu Zhongdong, Dr. Yuan Kang, Mr. Zou Xiaohong and Mr. Gao Lei, with Mr. Liu Kai Yu Kenneth as the chairperson.

Nomination Committee

Our Board has established the Nomination Committee with written terms of reference in compliance with Rule 3.27A of the Listing Rules and the Corporate Governance Code. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of Directors and management of Board succession. The Nomination Committee comprises Mr. Zou Xiaohong, Dr. Liu Zhongdong, Dr. Yuan Kang, Mr. Liu Kai Yu Kenneth and Mr. Gao Lei, with Mr. Zou Xiaohong as the chairperson.

Corporate Governance Code

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. In order to accomplish this, we expect to comply with all applicable code provisions of the Corporate Governance Code upon Listing.

Board Diversity

Our Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board. We recognize and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining our competitive advantage and enhancing our ability to attract, retain and motivate employees from the widest possible pool of available talent. In reviewing and assessing suitable candidates to serve as a Director, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption.

COMPLIANCE ADVISER

Our Company has appointed BOCOM International (Asia) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise our Company in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including shares issues and share repurchases;
- where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of the appointment of our compliance adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of salaries, annual performance bonuses, special bonuses, social insurance and housing benefits. The aggregate remuneration (including fees, salaries, contributions to pension schemes, bonus, retirement benefits scheme, allowance and other benefits in kind) paid to our Directors for the years ended December 31, 2021, 2022 and 2023 were RMB4.4 million, RMB5.0 million and RMB2.4 million, respectively. Save as disclosed above, no other amounts have been paid or are payable by any member of our Group to our Directors during the Track Record Period.

The aggregate amount of salaries, bonuses, pension costs, housing funds, medical insurance and other social insurances in kind paid to our five highest paid individuals for the years ended December 31, 2021, 2022 and 2023 were RMB12.5 million, RMB14.3 million and RMB5.7 million, respectively.

During the Track Record Period, no remuneration was paid to, or received by, our Directors or five highest paid individuals as an inducement to join or upon joining us. No compensation was paid to, or received by, our Directors, past directors or five highest paid individuals for the loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. Further, none of our Directors had waived or agreed to waive any remuneration during the same periods.

Under the arrangement currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, bonus, share-based payments, retirement benefits scheme, allowances and other benefits in kind) of our Directors for the year ending December 31, 2024 is estimated to be no more than RMB4.6 million.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management and, following the Listing, will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

OUR CONTROLLING SHAREHOLDERS

Mr. Gao is one of our non-executive Directors. As of the date of this prospectus, Mr. Gao, through Vastocean Capital Limited, his wholly-owned investment holding vehicle, is interested in 66.86% of the issued shares capital of our Company. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Gao will, indirectly and beneficially, be entitled to exercise 53.75% of the voting power at general meetings of our Company. Accordingly, upon Listing, Mr. Gao and Vastocean Capital Limited will constitute a group of controlling shareholders of our Company under the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders confirms that he/it does not have any interest in a business apart from the business of our Group which competes or is likely to compete, whether directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

Having considered the following factors, our Directors are satisfied that, we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates after Listing.

Management Independence

Our Board comprises two executive Directors, three non-executive Directors and three independent non-executive Directors, of whom Mr. Gao is our Controlling Shareholder as detailed above.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts in good faith for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interests. In the event that there is any potential conflict of interest arising out of any transaction to be entered into between our Group and any of our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management is able to perform the managerial role in our Group independently of our Controlling Shareholders and their respective close associates after Listing.

Operational Independence

We have full rights to make all decisions on, and to carry out, our own business operations independently from our Controlling Shareholders and their respective close associates and will continue to do so after the Listing. Our Group is able to operate without reliance on our Controlling Shareholder and his close associates.

Licenses required for operation

We hold and enjoy the benefit of all relevant licenses and permits material to the operation of our own business independent of our Controlling Shareholders.

Access to customers, suppliers and business partners

Our Group has a large and diversified base of customers who are unrelated to our Controlling Shareholders and/or their respective close associates. We have independent access to our customers, our suppliers as well as our other business partners.

Operational facilities

Our Group has sufficient production facilities and technology to operate its business independently from our Controlling Shareholders and their respective close associates.

Employees

As of the Latest Practicable Date, all of our full-time employees were recruited independently from our Controlling Shareholders and their respective close associates and primarily from the open market through both internal referrals and external sources such as recruitment advertisements, recruitment agencies and online platforms.

Financial Independence

All loans, advances and balances due to or from the Controlling Shareholders or their respective close associates which were not arising out of the ordinary course of business will be fully settled upon Listing. All share pledges and guarantees provided by the Controlling Shareholders or their respective close associates on the borrowings of our Group and vice versa will be fully released upon Listing.

In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third party financing. Accordingly, we believe we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules, which sets out principles of good corporate governance.

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest between our Group and our Controlling Shareholders. In order to further avoid potential conflicts of interest, we have implemented the following measures:

(a) we have established internal control mechanisms to identify connected transactions. Upon the Listing, if our Group enters into connected transactions with our Controlling Shareholders or their respective close associates, our Company will comply with the applicable requirements under the Listing Rules;

(b) where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of his close associates has any material interest, our Controlling Shareholders and their respective close associates (as applicable) will not vote on the resolutions and shall not be counted in the quorum for the voting;

(c) our Board consists of a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. We believe our independent non-executive Directors individually and collectively possess the requisite knowledge and sufficient experience to perform their duties. They are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders;

(d) we have appointed BOCOM International (Asia) Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws in Hong Kong and the Listing Rules including various requirements relating to Directors' duties and corporate governance matters;

(e) as required by the Listing Rules, our independent non-executive Directors shall review any continuing connected transactions annually and confirm in our annual report that such transactions (if any) have been entered into in our ordinary and usual course of business, either on normal commercial terms or on terms no less favorable to us than those available to or from independent third parties and on terms that are fair and reasonable and in the interests of our Shareholders as a whole.

OVERVIEW

We have entered into, and expect to continue, certain transactions with the following persons who will be our connected persons upon Listing. Such transactions, which are set out in this section, will constitute our continuing connected transactions under Rule 14A.31 of the Listing Rules.

Connected Person	Relationship
Linuo Group	Linuo Group is ultimately held by Mr. Gao Yuankun, the father of Mr. Gao, our executive Director and Controlling Shareholder, as to 80%. Therefore, Linuo Group will be an associate of Mr. Gao and our connected person upon Listing.
Wuhan Twin Tigers Coatings Co., Ltd. (武漢雙虎塗料股份有限公司) ("**Twin Tigers Coatings**")	Twin Tigers Coatings is a subsidiary of Linuo Group. Therefore, Twin Tigers Coatings will be an associate of Mr. Gao and our connected person upon Listing.
Linuo Investment	Linuo Investment is a subsidiary of Linuo Group. Therefore, Linuo Investment will be an associate of Mr. Gao and our connected person upon Listing.
Wuhan Xinkang Chemical Equipment Co., Ltd. (武漢新康化工設備有限公司) ("**Xinkang Chemical**")	Xinkang Chemical is indirectly held by Mr. Gao as to 66.86%. Therefore, Xinkang Chemical will be an associate of Mr. Gao and our connected person upon Listing.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

The table below sets forth a summary of the transactions that will constitute our continuing connected transactions under Rule 14A.31 of the Listing Rules upon Listing.

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending December 31,		
			2024	2025	2026
			(RMB million)		
Fully-exempt continuing connected transactions					
1. Lease of tanks to Twin Tigers Coatings	14A.76(1)	N/A	N/A	N/A	N/A
2. Provision of chemical processing services to Twin Tigers Coatings	14A.76(1)	N/A	N/A	N/A	N/A
3. Provision of utilities to Linuo Group and Xinkang Chemical	14A.97	N/A	N/A	N/A	N/A

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending December 31,		
			2024	2025	2026
			(RMB million)		
Partially-exempt continuing connected transactions					
4. Provision of property management services from Linuo Investment	14A.35, 14A.76(2) and 14A.105	Announcement requirement	15.2	15.2	15.2
5. Provision of equipment production, installation and maintenance services from Xinkang Chemical	14A.35, 14A.76(2) and 14A.105	Announcement requirement	63.4	63.4	63.4

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Lease of Tanks to Twin Tigers Coatings

Twin Tigers Coatings is a paint manufacturer located in the Wuhan Linuo Industrial Zone (武漢力諾產業園) inside the Wuhan Chemical Industrial Park. We have leased and will continue to lease several tanks located in the middle area of Wuhan Linuo Industrial Zone to Twin Tigers Coatings for the storage of chemical materials. The rental charged by us from Twin Tigers Coatings will be determined on arm's length negotiations between the parties with reference to, among others, the land use right amortization expenses, the depreciation of fixed assets of the equipment in the tank area, the labor costs, steam costs, land use tax and property management costs incurred by us.

Since the highest applicable percentage ratio calculated under Chapter 14A of the Listing Rules in respect of the above transaction, which is conducted on normal commercial terms or better, is expected to be less than 0.1%, by virtue of Rule 14A.76(1), it will be exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

2. Provision of chemical processing services to Twin Tigers Coatings

During our ordinary and usual course of business, we have provided and will continue to provide chemical processing services to Twin Tigers Coatings, including electrophoretic emulsion and resin dissolution. The service fees charged by us from Twin Tigers Coatings will be determined after arm's length negotiations between the parties with reference to, among others, historical price and the prevailing market rate.

Since the highest applicable percentage ratio calculated under Chapter 14A of the Listing Rules in respect of the above transaction, which is conducted on normal commercial terms or better, is expected to be less than 5% and the total consideration is expected to be less than HK$3 million, by virtue of Rule 14A.76(1), it will be exempt from the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

3. Provision of Utilities to Linuo Group and Xinkang Chemical

On May 21, 2024, we entered into an operation management service framework agreement (the "**Operation Management Service Framework Agreement**") with Mr. Gao and Mr. Gao Yuankun, to regulate, among others, the provision of utilities to their associates following the Listing. Pursuant to the Operation Management Service Framework Agreement, we agreed to provide utilities, including without limitation water, steam, natural gas, nitrogen and electricity, to Linuo Group and its subsidiaries (including Twin Tigers Coatings and Wuhan Kangjian New Materials Co., Ltd. (武漢康潤新材料有限公司) ("**Kangjian New Materials**")) and Xinkang Chemical, which are also occupants of the Wuhan Linuo Industrial Zone. Linuo Group is the holding company of the group of companies constituting the "Linuo (力諾)" conglomerate, which is principally engaged in the manufacturing of glass, new energy products (particularly in relation to solar power) and medicine.

The Operation Management Service Framework Agreement is valid for a term commencing on the Listing Date and ending on December 31, 2026, subject to renewal upon parties' mutual agreement.

The properties under the Operation Management Service Framework Agreement are leased by us from Linuo Investment, an investment and asset holding company wholly-owned by Linuo Group, as our office and place of business. Due to the design of the Wuhan Linuo Industrial Zone, other occupants of the Wuhan Linuo Industrial Zone have no independent water, steam, natural gas, nitrogen or electricity meters with the relevant utility providers and need to share such facilities with us, who maintain the relevant and only utility account for the entire Wuhan Linuo Industrial Zone. Hence, the procurement of utilities to other occupants in the Wuhan Linuo Industrial Zone, including Twin Tigers Coatings, Kangjian New Materials and Xinkang Chemical, has been made an integral part of the lease of the properties and the provision of property management services provided by Linuo Investment as detailed in "— Partially-exempt Continuing Connected Transactions — 4. Provision of Property Management Services from Linuo Investment."

The fees payable by Linuo Group and Xinkang Chemical to us will be determined at an at-cost basis at the government-prescribed rates charged on the factories and the consumption amount will be confirmed by both parties by jointly inspecting the readings on the relevant meters on a monthly basis. We will subsequently settle the amount with the relevant utility providers.

Since the utilities are (i) for Linuo Group and Xinkang Chemical's own consumption and use and not processed into their products or resale, (ii) consumed or used by Linuo Group and Xinkang Chemical in the same state as when they are bought, and (iii) provided on no more favorable terms to Linuo Group and Xinkang Chemical than those available from independent third parties, the transactions are fully exempt from the independent shareholders' approval, annual review and all disclosure requirements under Rule 14A.97 of the Listing Rules.

PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Since the highest applicable percentage ratio calculated under Chapter 14A of the Listing Rules in respect of the following transactions, which are conducted on normal commercial terms or better, is expected to be more than 0.1% but less than 5% on an annual basis, by virtue of Rule 14A.76(2), these transactions will be subject to the reporting, annual review and announcement requirements, but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

4. Provision of Property Management Services from Linuo Investment

Principal terms

Pursuant to the Operation Management Service Framework Agreement, Linuo Investment agreed to provide property management services to us for our occupation in the Wuhan Linuo Industrial Zone, including property operation, maintenance and management.

Reasons and benefits of the transactions

The properties under the Operation Management Service Framework Agreement are leased by us from Linuo Investment as our office and place of business. The lease with Linuo Investment is recognized as right-of-use assets in accordance with HKFRS 16 "Leases" and is treated as one-off acquisitions of capital assets by our Group which are not subject to the shareholders' approval, annual review and all disclosure requirements with regard to continuing connected transaction under Chapter 14A of the Listing Rules. In connection with such leases, we have also been engaging Linuo Investment's property management services for our occupation in the Wuhan Linuo Industrial Zone.

As we expect that we will continue to lease these properties after Listing, the continued provision of property management services by Linuo Investment to us contemplated under the Operation Management Service Framework Agreement will be beneficial to us because (i) it would save administrative costs and time that would otherwise be spent on negotiating and entering into contracts with independent third party lessors and property management service providers, and (ii) relocation of our office from the existing leased premises from Linuo Investment to other properties managed by independent third party property management service providers may cause unnecessary disruptions to our business and additional costs and expenses. In addition, we are not bound and will not be bound to lease properties owned and managed by Linuo Investment only. The Operation Management Service Framework Agreement is convenient and cost-effective for us and is in line with our business needs and economic interests.

Pricing policy

Under the Operation Management Service Framework Agreement, the service fees to be incurred by Wuhan Youji to Linuo Investment shall be determined after arm's length negotiation between the parties with reference to the prevailing market rate in respect of similar property management services provided by other independent property management service providers. To evaluate and assess the level of service fees charged by Linuo Investment for the provision of property management services under the Operation Management Service Framework Agreement, we will, on an annual basis, conduct research on comparable companies or obtain quotations from independent third party service providers with comparable scale, such that we could ensure the service fees and terms offered by Linuo Investment are on normal commercial terms or better, fair and reasonable, and in the interests of our Company and our Shareholders as a whole.

Historical amounts and annual caps

The table below sets out the historical amounts of service fees paid by us to Linuo Investment during the Track Record Period and the expected maximum amounts payable by us for the three years ending December 31, 2026.

Historical amounts			Proposed annual caps		
Year ended December 31,			Year ending December 31,		
2021	2022	2023	2024	2025	2026
(RMB million)			*(RMB million)*		
3.3	10.4	11.0	15.2	15.2	15.2

We engaged Linuo Investment for property management services in respect of the office area of the Wuhan Linuo Industrial Zone in 2021, which has a gross floor area of 172,667.5 sq.m. To facilitate a unified and orderly management of the Wuhan Linuo Industrial Zone, we further engaged Linuo Investment in 2022 for property management services in respect of the production area, which has a gross floor area of 248,667.9 sq.m. We also utilize the south gate of the Wuhan Linuo Industrial Zone from time to time, which is included in the production area, to accommodate our increased transportation needs from business operation and logistics management, incurring additional expenses from property management services (i.e., additional security personnel and security services expenses) to be provided by Linuo Investment. Starting from 2024, we also expect to incur property management service fees in respect of the lease of warehouse area from Linuo Investment with a gross floor area of 41,133.5 sq.m. When determining the proposed annual caps, we have taken into consideration (i) the historical property management fees paid by us to Linuo Investment in respect of the abovementioned office area and production area, (ii) the prevailing market rate for the provision of similar property management services of similar types of properties, and (iii) the expected increase in demand of our Group for the property management services to be provided by Linuo Investment and/or its associates in 2024. Since we do not have current intention to occupy additional land in the Wuhan Linuo Industrial Zone up to 2026, and do not expect a change in the rate to be charged by Linuo Investment on its property management services, the total service fees are expected to remain stable for each of the three years ended December 31, 2026.

5. Provision of Equipment Production, Installation and Maintenance Services from Xinkang Chemical

Principal terms

On May 21, 2024, we entered into an equipment production, installation and maintenance service framework agreement with Xinkang Chemical, pursuant to which Xinkang Chemical agreed to supply to us equipment, pipes and fittings including stainless steel and carbon steel vessels, condenser, heat exchanger, and provide installation services to us (the "**Equipment Production, Installation and Maintenance Service Framework Agreement**"). The Equipment Production, Installation and Maintenance Service Framework Agreement is valid for a term commencing on the Listing Date and ending on December 31, 2026, subject to renewal upon parties' mutual agreement.

Reasons for and benefits of the transactions

Xinkang Chemical is a qualified manufacturer of pressure vessels located in the Wuhan Linuo Industrial Zone, and has been a long-term supplier of our Group of such vessels as well as other equipment, pipes and fittings. Due to its proximity to our production facilities, Xinkang Chemical is able to deliver and install such equipment for us within a relative short time and provide timely maintenance service when requested. The continued provision of equipment production, installation and maintenance services by Xinkang Chemical to us contemplated under the Equipment Production, Installation and Maintenance Service Framework Agreement will be beneficial to us because (i) Xinkang Chemical is familiar with our needs as a result of our long-term working relationship, and (ii) it would save administrative costs and time that would otherwise be spent on negotiating and entering into contracts with independent third party service providers. In addition, we are not bound and will not be bound to source such equipment, pipes and fittings from Xinkang Chemical only. The Equipment Production, Installation and Maintenance Service Framework Agreement is convenient and cost-effective for us and is in line with our business needs and economic interests.

Pricing policy

The service fees to be incurred by Wuhan Youji to Xinkang Chemical shall be determined after arm's length negotiation between the parties with reference to the prevailing market rate in respect of similar equipment production, installation and maintenance services provided by other independent service providers. To evaluate and assess the level of service fees charged by Xinkang Chemical for the provision of equipment production, installation and maintenance services under the Equipment Production, Installation and Maintenance Service Framework Agreement, we will, on an annual basis, conduct research on comparable companies or obtain quotations from independent third party service providers with comparable scale, such that we could ensure the service fees and terms offered by Xinkang Chemical are on normal commercial terms or better, fair and reasonable, and in the interests of our Company and our Shareholders as a whole.

Historical amounts and annual caps

The table below sets out the service fees paid by us to Xinkang Chemical during the Track Record Period and the expected maximum service fees payable by us for the three years ending December 31, 2026.

Historical amounts			Proposed annual caps		
Year ended December 31,			Year ending December 31,		
2021	2022	2023	2024	2025	2026
	(RMB million)			*(RMB million)*	
33.2	40.4	25.7	63.4	63.4	63.4

When determining the proposed annual caps, we have taken into consideration (i) the historical service fees paid by us to Xinkang Chemical, and (ii) the projected growth rate of our volume of business and the expansion plan of the production facilities, in particular the establishment of the Hubei Xinxuanhong Production Plant. Based on our procurement plan of equipment from Xinkang Chemical taking into consideration our current construction plan of the Hubei Xinxuanhong Production Plant and the production capacity of Xinkang Chemical, and the expected steady fees for the procurement, installation and maintenance of such equipment, the capital expenditure on the procurement of equipment from Xinkang Chemical is expected to remain stable for each of the three years ending December 31, 2026.

WAIVER

The transactions described under "— Partially-exempt Continuing Connected Transactions" will constitute our continuing connected transactions upon Listing, and will be subject to the reporting, annual review and announcement requirements, but exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As such partially-exempt continuing connected transactions are expected to be carried out on a recurring basis, and their material terms have been disclosed in this prospectus, our Directors consider that strict compliance with the aforesaid announcement requirement immediately after Listing will be unduly burdensome and would impose unnecessary administrative costs on our Company. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement in respect of the partially-exempt continuing connected transactions.

We will, however, comply at all times with the other applicable provisions under Chapter 14A of the Listing Rules in respect of these partially-exempt continuing connected transactions. In addition, we will immediately inform the Stock Exchange if any of the proposed annual caps set out in this section have been exceeded, or when there is any material change in the terms of the non-exempt continuing connected transactions described in this section.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that the partially-exempt continuing connected transactions set out above have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms or better that are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the proposed annual caps for these transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

Based on the data and information provided by our Company and the necessary representations and confirmations from our Company and Directors, having made reasonable inquiries and after due and careful consideration, the Sole Sponsor is of the view that, as of the date of this prospectus, the partially-exempt continuing connected transactions described above, and for which waivers have been sought, will be entered into in the ordinary and usual course of business of our Company, on normal commercial terms or better that are fair and reasonable, and in the interests of our Shareholders as a whole, and that the proposed annual caps in respect of such transactions are fair and reasonable and in the interests of our Shareholders as a whole.

AUTHORIZED AND ISSUED SHARE CAPITAL

Authorized Share Capital

As of the Latest Practicable Date, our authorized share capital was US$50,000 divided into 500,000,000 Shares of a par value of US$0.0001 each.

Issued Share Capital

As of the Latest Practicable Date, our issued share capital consisted of 75,000,000 Shares of a par value of US$0.0001 each. Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following completion of the Global Offering will be as follows:

	Number of Shares	Aggregate nominal value
		US$
Shares in issue	75,000,000	7,500
Shares to be issued pursuant to the Global Offering	18,300,000	1,830
Total	93,300,000	9,330

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Upon completion of the Global Offering, our Company has only one class of Shares, namely ordinary shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Act and the terms of our Articles of Association, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its unissued Shares into classes; (iv) subdivide its Shares or any of them into Shares of smaller amount; and (v) cancel any Shares which at the date of the passing of resolution which have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so canceled. In addition, our Company may reduce or redeem its share capital by Shareholders' special resolution. For details, please refer to "Appendix III — Summary of Our Constitution and Cayman Islands Companies Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital" in this prospectus.

Pursuant to the Cayman Companies Act and the terms of our Articles of Association, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to the share or any class of shares (unless otherwise provided for in the terms of issue of the shares of that class) may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. For details, please refer to "Appendix III — Summary of Our Constitution and Cayman Islands Companies Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares" in this prospectus.

GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

Subject to the conditions stated in "Structure and Conditions of the Global Offering — Conditions of the Global Offering," our Directors have been granted general unconditional mandates to issue and repurchase our Shares.

For further details of these general mandates, please refer to "Appendix IV — Statutory and General Information — A. Further Information about our Group — 4. Resolutions of our Shareholders" in this prospectus.

So far as our Directors are aware, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), the following persons will have an interest or a short position in Shares and/or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company.

Name of Shareholder	Nature of interest[(1)]	Number of Shares or underlying Shares held	Approximate percentage of interest after the Global Offering[(2)]
Vastocean Capital Limited	Beneficial interest[(3)]	50,150,842	53.75%
Mr. Gao	Interest in controlled corporation[(3)]	50,150,842	53.75%
SYM Holdings Limited	Beneficial interest[(4)]	12,537,710	13.44%
Mr. Shen	Interest in controlled corporation[(4)]	12,537,710	13.44%
Custodian Capital Ltd.	Nominee interest[(5)]	7,271,448	7.79%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 93,300,000 Shares in issue immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised).

(3) As of the Latest Practicable Date, Vastocean Capital Limited was wholly owned by Mr. Gao. By virtue of the SFO, Mr. Gao is deemed to be interested in the Shares held by Vastocean Capital Limited.

(4) As of the Latest Practicable Date, SYM Holdings Limited was wholly owned by Mr. Shen. By virtue of the SFO, Mr. Shen is deemed to be interested in the Shares held by SYM Holdings Limited.

(5) As of the Latest Practicable Date, Custodian Capital Ltd., the nominee of the Retaining Shareholders and the Unresponsive Shareholders, was wholly owned by Mr. Gao.

For details of shareholders who will be, directly or indirectly, interested in 10% or more of the issued voting shares of other members of our Group, please refer to "Appendix IV — Statutory and General Information — C. Further Information about Our Directors and Substantial Shareholders — 1. Disclosure of Interests — (b) Interests of our Substantial Shareholders" in this prospectus.

You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this prospectus, including the sections headed "Risk Factors" and "Business."

For the purpose of this section, unless the context otherwise requires, references to 2021, 2022 and 2023 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a renowned toluene derivative products provider in the PRC and the global market, primarily focusing on the manufacture of toluene oxidation and chlorination products, benzoic acid ammonification products and other fine chemical products through organic synthesis process. Our toluene derivative products are primarily used for food preservatives, household chemicals, animal feed acidifier, and synthetic intermediates for agrochemical and pharmaceutical uses. Leveraging our PRC-based product development and manufacturing capabilities, we market and sell our products in over 70 countries. Under the leadership of our experienced management team, we will continue to leverage our product development and innovation, manufacturing capabilities and global sales network to strengthen our industry leading position in the PRC and globally.

As of the Latest Practicable Date, we had a self-produced product portfolio primarily consisting of five types of toluene oxidation products, two types of toluene chlorination products, two types of benzoic acid ammonification products and more than 20 types of other fine chemical products for broad market uses. In 2021, 2022 and 2023, we recorded sales volume of approximately 362,302 tons, 375,848 tons, and 346,147 tons of products, respectively. Our products are widely recognized around the world. We are the contract supplier of many renowned global companies, including a number of Fortune 500 companies and regional industry participants. We have established long-term business relationships with these companies, which enable our customers to procure high-quality products at a competitive price while providing us with a solid customer base. Sales to our Fortune 500 customers contributed to approximately 7.6%, 8.5% and 10.5% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. While our existing products enjoy broad market appeal and use, we strive to maintain our competitive advantages by allocating additional resources to product development to ensure a growing portfolio of products to our customers.

According to the Frost & Sullivan Report, we are the largest manufacturer for both benzoic acid and sodium benzoate and the second largest benzyl alcohol manufacturer in the PRC in terms of sales revenue in 2023. In the global market, we ranked second among manufacturers for benzoic acid and sodium benzoate and third place among manufacturers for benzyl alcohol in 2023.For the years ended December 31, 2021, 2022 and 2023, we generated revenue of RMB2,789.5 million, RMB3,133.8 million and RMB2,677.1 million, respectively. Our net profits for the corresponding periods were RMB309.1 million, RMB340.5 million and RMB72.9 million.

BASIS OF PREPARATION

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2021, 2022 and 2023, and the consolidated statements of financial position of the Group as at December 31, 2021, 2022 and 2023 and the summary of material accounting policies and other explanatory information (together, the "**Historical Financial Information**") have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

All HKFRSs effective for the accounting period commencing from January 1, 2023, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the Historical Financial Information throughout the Track Record Period.

The Historical Financial Information has been prepared under the historical cost convention except for bills receivable and investment in a fund which have been measured at fair value at the end of each of the Track Record Period.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been, and are expected to continue to be, affected by a variety of factors, including those set forth below.

Demand of Toluene Derivative Products in China and Globally

We believe our financial performance and future growth depend on the overall growth of the toluene derivative products market, especially toluene oxidation products and toluene chlorination products, in China and globally. According to the Frost & Sullivan Report, the global sales volume of benzoic acid increased from approximately 246,700 tons in 2018 to 265,100 tons in 2023, representing a CAGR of 1.4%, and is expected to reach 357,300 tons in 2028. The global sales revenue of benzoic acid increased from approximately RMB1,728.2 million in 2018 to RMB2,120.7 million in 2023, representing a CAGR of 4.2%, and is estimated to reach RMB3,153.0 million in 2028. According to the Frost & Sullivan Report, the global sales volume of benzyl alcohol increased from approximately 149,300 tons in 2018 to 175,500 tons in 2023, representing a CAGR of 3.3%, and is expected to reach 238,700 tons in 2028. The global sales revenue of benzyl alcohol increased from approximately RMB1,844.1 million in 2018 to RMB2,251.3 million in 2023, representing a CAGR of 4.1%, and is estimated to reach RMB3,494.6 million in 2028.

Furthermore, toluene derivative products are widely used in food and beverage preservatives and feed additives. China is one of the largest markets for food and beverage preservatives and feed additives, and is currently showing positive development trends. According to the Frost & Sullivan Report, the PRC market size for the food and beverage preservative industry by revenue increased from RMB4.8 billion in 2018 to RMB6.0 billion in 2023, representing a CAGR of 4.9%, and is expected to reach RMB7.6 billion in 2028. The PRC market size for the feed additives industry by revenue increased from RMB94.4 billion in 2018 to RMB122.3 billion in 2023, representing a CAGR of 5.3%, and is expected to reach RMB160.4 billion in 2028 with a CAGR of 6.0% from 2024.

For the years ended December 31, 2021, 2022 and 2023, sales of toluene oxidation products and toluene chlorination products comprised 64.5%, 76.1% and 72.6% of our total revenue, respectively. We will continue to solidify our leading position and focus on the production of toluene oxidation and toluene chlorination products to take advantage of the growing demands. We believe by leveraging our leading position in the toluene oxidation and toluene chlorination products market in China and globally, we are well-positioned to capture the tremendous market opportunities to improve our results of operation and financial performance.

Expansion of Our Production Capacity

We generate our revenue from the products we produce and sell. Our sales volumes primarily depend on industry demands for our products, and more importantly, our production capacity to meet these market demands. We believe that our production capacity and the utilization rate of our production facilities have a significant impact on our business operations and financial results, and our future growths will largely rely on the continued expansion of our production capability.

During the Track Record Period, we operated two production facilities through our wholly-owned subsidiaries located in Wuhan (the "**Wuhan Production Plant**") and Qianjiang (the "**Qianjiang Xinyihong Production Plant**"), Hubei Province with a total site area of 326,618.9 sq.m. As at December 31, 2023, the designed annual production capacity for our Wuhan Production Plant and Qianjiang Xinyihong Production Plant were approximately 302,500 tons and 144,040 tons, respectively. The utilization rates were 102.4%, 122.8% and 104.0% for our Wuhan Production Plant, and 91.8%, 91.7% and 86.4% for our Qianjiang Xinyihong Production Plant for the years ended December 31, 2021, 2022 and 2023. In anticipation of the industry trends and our business growth in the larger organic synthetic chemical products industry, and to better serve our clients in the PRC and the global market, we have undertaken efforts to expand our current production capacity. We completed the expansion plan of our Wuhan Production Plant and commenced production in January 2022. This new facility is mainly designed for the production of melt-crystallized benzoic acid, which is a downstream product of benzoic acid obtained through melt-crystallization process. We commenced production at the new facility in the January 2022. We also established a new wholly-owned subsidiary, Hubei Xinxuanhong in 2021, and this manufacturing facility (the "**Hubei Xinxuanhong Production Plant**") is designed to produce toluene chlorination derivative products. We have initiated the design and regulatory application processes for Hubei Xinxuanhong Production Plant, and expect to complete the Phase I construction by the first half of 2024. In addition to expanding our domestic production facilities, we also plan to establish our global footprints with production capabilities overseas in support of our global sales to achieve greater economy of scale.

Our Ability to Manage Costs and Expenses

Our ability to manage and control our costs and expenses is one of the key factors affecting our results of operation. During the Track Record Period, we devoted efforts to control our cost of sales, which primarily includes costs of consumed raw materials, staff costs, utilities, depreciation, transportation costs, packaging expenses and others. For the years ended December 31, 2021, 2022 and 2023, our cost of sales were RMB2,150.4 million, RMB2,434.6 million and RMB2,347.3 million, respectively, representing 77.1%, 77.7% and 87.7% of our revenue for the corresponding periods.

Cost of consumed raw materials constitutes a major portion of our cost of sales. For the years ended December 31, 2021, 2022 and 2023, our cost of consumed raw materials were RMB1,175.6 million, RMB1,569.5 million and RMB1,384.2 million, which accounted for 54.7%, 64.5% and 59.0% of our total cost of sales, respectively. Fluctuations in raw material prices, especially the market prices of petroleum toluene primarily affected by the international crude oil prices, may increase our costs of sales. For more information about risks related to raw material price fluctuation, please refer to "Risk Factors — Any shortage in supply of raw materials or material fluctuation in their purchase prices may adversely affect our profit margins and results of operation" in this prospectus.

We have adopted diversified measures to mitigate the adverse impact imposed by the price fluctuation of raw materials. For example, we maintain a steady and reliable supply of raw materials by leveraging our industry position and solid customer base. On December 19, 2022, we entered into a cooperation agreement with SINOPEC Jianghan Salt Chemical Hubei Co., Ltd. (中石化江漢鹽化工湖北有限公司), a wholly-owned subsidiary of SINOPEC, to purchase liquid caustic soda, which is one of our main raw materials. Jianghan Salt Chemical provides us with a discount on the purchase price compared to what it charges other customers. We believe that similar cooperation promotes the smooth operation of our business and maximizes our business efficiency. For details on the cooperation with our suppliers, please refer to "Business — Our Strategies — Further increase our domestic and international market shares by forming in-depth cooperation with established market participants" in this prospectus.

In addition, we have been rated as the "AAA" customers of SINOPEC Huazhong since 2012. SINOPEC Huazhong is a branch of a wholly-owned subsidiary of SINOPEC, which is one of the largest suppliers of petroleum toluene and a major industry participant in China. On December 21, 2020, January 1, 2022 and December 31, 2022, we entered into framework sales and purchase agreements with SINOPEC Huazhong, under which we are able to purchase approximately 71,000 tons, 80,000 tons and 64,000 tons of petroleum toluene from SINOPEC Huazhong for 2021, 2022 and 2023, respectively, with the actual monthly purchase quantity to be further agreed among the parties upon submission of the purchase plan for the following month by the Group to SINOPEC Huazhong. We also entered into a strategic cooperation agreement with Distributor A, who is our largest supplier during the Track Record Period, on June 13, 2018, under which we are able to purchase approximately 15,000 tons of petroleum toluene per month (subject to adjustments of ± 5,000 tons) from June 1, 2019 to June 30, 2021. On January 6, 2022, we entered into additional framework sales and purchase agreements with Distributor A, under which we are able to purchase approximately 15,000 tons of petroleum toluene per month (subject to ±15% of quantity adjustment) from January 2022 to December 2022. We extended our agreement with Distributor A on January 6, 2023, under which we are able to purchase 9,000 tons to 15,000 tons of petroleum toluene per month (subject to ±15% of quantity adjustment) from January 2023 to December 2023. These framework agreements not only represent our long-standing relationship with the largest raw material suppliers in our industry, but also affords us the ability to make large-scale procurement. According to the Frost & Sullivan Report, large-scale procurement of petroleum toluene generally leads to significant advantage in cost saving of raw material, and further strengthen our competition in product price and steady raw material supply. Meanwhile, sufficient stock of the primary raw material in our industry, petroleum toluene, also affords us the capability and flexibility in managing our inventory and conducting petroleum toluene products trading business as well as facing market fluctuations.

Nevertheless, there are costs and other factors affecting our operational efficiency that are beyond our control. In addition, despite our continued investments in production technology and efforts to optimize our operations, future efficiency gains cannot be assured. Our ability to manage costs and expenses will remain a key factor with direct impact on our business, financial condition, results of operations and prospects.

Our Ability to Expand Our Sales Network and Market Penetration

Our business operations rely on our multi-faceted sales network to provide our products to customers. According to the Frost & Sullivan Report, we are the largest manufacturer for both benzoic acid and sodium benzoate and the second largest benzyl alcohol manufacturer in the PRC in terms of the sales revenue in 2023, accounting for 62.0%, 37.9% and 33.9% of the PRC total market revenue for these products, respectively. In the global market, we ranked second among manufacturers for benzoic acid and sodium benzoate and third place among manufacturers for benzyl alcohol in 2023, accounting for 37.0%, 22.4% and 20.6% of the global total market revenue for these products, respectively. Our leading market position is elevated by our extensive distribution network for our products. We have established a fully functional distribution network in both the PRC and the international market. As of December 31, 2023, our distribution network comprised 435 distributors across China, and we had established an overseas distribution network comprising 251 distributors. We endeavor to leverage our established network of distributors to supplement our direct sales and further penetrate the local markets and expand the breadth and depth of our market presence.

For the years ended December 31, 2021, 2022 and 2023, 43.9%, 51.8% and 45.8% of our revenue for the corresponding periods were generated from direct sales, in which our products were directly sold to end users such as chemical companies, food producing and processing companies and pharmaceutical companies; 35.5%, 35.0% and 37.2% of our revenue from the corresponding periods were generated from distribution sales, in which our products were sold to distributors that we believe will resell our products to their customers and their sub-distributors; and 20.6%, 13.2% and 17.0% of our revenue from the corresponding periods were generated though products trading in which we purchase petroleum toluene and other products from suppliers and resell them directly to our customers.

We believe that the performance of our sales network, and our ability to expand our product distribution and market penetration are crucial to our business and directly affect our sales volume and profitability. As we enter into new domestic and international markets, and increase our production capacity, we will broaden our sales network to further develop our market penetration.

MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

We have identified certain accounting policies that are most material and certain estimates that are most significant to the preparation of our consolidated financial statements. For details of these accounting policies and estimates, please refer to "Appendix I — Accountants' Report — II Notes to the Historical Financial Information — 2.3 Summary of Material Accounting Policy Information" and "Appendix I — Accountants' Report — II Notes to the Historical Financial Information — 3. Significant Accounting Judgments and Estimates" in this prospectus.

Material Accounting Policies

Revenue Recognition

Revenue from Contracts with Customers

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

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

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

Revenue from the sales of industrial products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other Income

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

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

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Entrusted processing services income is recognized when the products entrusted for processing are delivered to the customer.

Investments and other financial assets

Initial Recognition and Measurement

Financial assets are classified, at initial recognition and subsequently measured at amortized cost, and fair value through profit or loss ("**FVTPL**").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and our business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which we have applied the practical expedient of not adjusting the effect of a significant financing component, we initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which we have applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with our policies of revenue recognition.

In order for a financial asset to be classified and measured at amortized cost, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Our business model for managing financial assets refers to how we manage our financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular purchases and sales of financial assets are recognized on the trade date, that is, the date that we commit to purchase or sell the asset. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

- Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss.

This category includes derivative instrument and equity investments which we had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognized as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to us and the amount of the dividend can be measured reliably.

Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from our consolidated statement of financial position) when:

the rights to receive cash flows from the asset have expired; or

we have transferred our rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) we have transferred substantially all the risks and rewards of the asset, or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred our rights to receive cash flows from an asset or have entered into a pass-through arrangement, we evaluate if, and to what extent, we have retained the risk and rewards of ownership of the asset. When we have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, we continue to recognize the transferred asset to the extent of our continuing involvement. In that case, we also recognize the associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that we have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that we could be required to repay.

Impairment of Financial Assets

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

General Approach

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

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

We consider a financial asset in default when contractual payments are 30-90 days past due. However, in certain cases, we may also consider a financial asset to be in default when internal or external information indicates that we are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by us. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified Approach

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

Property, Plant and Equipment and Depreciation

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

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

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

Buildings	3.2%–9.5%
Plant and machinery	7.9%–47.5%
Furniture and fixtures	9.5%–23.8%
Motor vehicles	19.0%–23.8%

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

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

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

Leases

We assess at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

We apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. We recognize lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use Assets

Right-of-use assets are recognized at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	5–50 years
Buildings	2.6–5 years
Storage tanks	3–7 years
Motor vehicles	3–5 years

If ownership of the leased asset transfers to our Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by us and payments of penalties for termination of a lease, if the lease term reflects our exercise of the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, we use our incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Short-term leases

Our Group applies the short-term lease recognition exemption to short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term.

As lessor

When we act as a lessor, we classify at lease inception (or when there is a lease modification) each of our leases as either an operating lease or a finance lease.

Leases in which we do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, we allocate the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. When the grant relates to expenses or losses already incurred or for the purpose of giving immediate financial support to us with no future costs and obligations, it is recognized in profit or loss in the period in which it becomes receivable.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Significant Accounting Estimates

Provision for expected credit losses on trade receivables

Our Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the Historical Financial Information.

Provision for expected credit losses on other receivables

Our Group estimates the provision for ECLs on other receivables based on the historical loss record and adjusts for forward-looking information. When assessing the loss given default, the Group also considers the financial capability of the debtors and future prospects of the industry in which the debtors operate. The assessment of the debtors' financial capability and estimates of future prospects of the industry and economic conditions involved significant management judgment and estimation.

Leases – Estimating the incremental borrowing rate

We cannot readily determine the interest rate implicit in a lease, and therefore, we use an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the interest rate that we would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what we "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). We estimate the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred Tax Assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

DESCRIPTION OF KEY STATEMENT OF PROFIT OR LOSS ITEMS

The table below sets forth our consolidated statements of profit or loss for the periods indicated derived from our consolidated statements of profit or loss and other comprehensive income set out in the Accountants' Report included in Appendix I to this prospectus:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	2,789,477	3,133,836	2,677,103
Cost of sales	(2,150,355)	(2,434,558)	(2,347,338)
Gross profit	**639,122**	**699,278**	**329,765**
Other income and gains	39,901	34,514	25,505
Selling and distribution expenses	(19,820)	(24,009)	(20,717)
Administrative expenses	(100,457)	(116,498)	(95,416)
Research and development expenses	(110,831)	(133,001)	(99,959)
Other expenses	(22,753)	(5,366)	(4,798)
Finance costs	(34,066)	(31,026)	(32,281)
Share of profits and losses of:			
Joint venture	(6,010)	(8,044)	(11,834)
Associates	8,450	11,842	4,473
Profit before tax	**393,536**	**427,690**	**94,738**
Income tax expense	(84,399)	(87,220)	(21,836)
Profit for the year	**309,137**	**340,470**	**72,902**

Revenue

The following table sets forth the breakdown of our revenue during the Track Record Period:

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of self-produced products	2,213,551	79.4	2,721,500	86.8	2,221,064	83.0
Products trading	575,926	20.6	412,336	13.2	456,039	17.0
Total	**2,789,477**	**100.0**	**3,133,836**	**100.0**	**2,677,103**	**100.0**

Sale of self-produced products. We generate our revenue primarily from sales of self-produced products, accounting for revenue from toluene oxidation product sales, toluene chlorination product sales, benzoic acid ammonification product sales and other fine chemical product sales. Revenue contribution from sales of self-produced products accounted for 79.4%, 86.8% and 83.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively.

Products trading. We engage in products trading to supplement our primary production operations to ensure the procurement of raw materials for production and as a strategy to effectively manage our inventory. We also believe this common business strategy adopted among industry manufacturers will expand our product coverage and lead to greater business advantages by providing greater product variety to our clients. We categorize our products trading by toluene product trading and other products trading. Revenue contribution from products trading accounted for 20.6%, 13.2% and 17.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. We engage in products trading despite fluctuating profits as we anticipate greater business advantage by maintaining products trading operations and stable access to raw material supply in the long run, and aim to be at the forefront of this developing trend.

Petroleum toluene is the primary raw material used for the manufacturing of our self-produced products, and we secure our supply through purchases of petroleum toluene from a selected number of major suppliers in the PRC market. According to Frost & Sullivan, these major suppliers may prioritize selling their products to purchasers with established business relationship, and these purchasers can place large purchase amount orders, which enables these purchasers to maintain a stable supply of raw materials at relatively lower costs. As a result of our long-term business relationship and framework agreement with large purchase amounts with these suppliers, we have been able to maintain a stable supply of raw materials at relatively lower costs for the manufacturing of our products. In addition, as we carry out our expansion plans to increase our production capacity, we expect our demands for raw materials to increase in the future, and persistent access to raw materials is of particular importance to us. Given the importance of these strategic relationships with our suppliers, we engage in toluene product trading to help us manage our inventory of raw materials when we have sufficient supply for our own production. For example, we increased our procurement amount of petroleum toluene when the average unit price of petroleum toluene was relatively low at the end of 2021 to benefit from the market condition and to ensure our supply of raw materials. In 2022, we resold the surplus amounts when the average unit price of petroleum toluene was favourable and after taking our internal demands into consideration. According to the Frost & Sullivan Report, large-scale procurement of petroleum toluene generally leads to significant advantage in cost of raw material, and further strengthening our competitiveness in product pricing and ensure a steady supply of raw materials.

Revenue by Product Type

The following table sets forth our revenue by product type during the Track Record Period.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of self-produced products	**2,213,551**	**79.4**	**2,721,500**	**86.8**	**2,221,064**	**83.0**
Toluene oxidation products	*1,311,522*	*47.0*	*1,555,182*	*49.6*	*1,356,387*[(1)]	*50.7*
– benzoic acid	752,321	27.0	910,379	29.0	784,461	29.3
– sodium benzoate	451,129	16.2	543,084	17.3	437,519	16.3
– others	108,072	3.8	101,719	3.3	134,407	5.1
Toluene chlorination products	*487,513*	*17.5*	*831,305*	*26.5*	*587,599*	*21.9*
– benzyl chloride	124,810	4.5	189,440	6.0	124,841	4.7
– benzyl alcohol	362,703	13.0	641,865	20.5	462,758	17.2
Benzoic acid ammonification products	*237,010*	*8.5*	*130,392*	*4.2*	*116,250*	*4.3*
– benzonitrile	48,319	1.7	27,180	0.9	39,538	1.5
– benzoguanamine	188,691	6.8	103,212	3.3	76,712	2.8
Other fine chemical products[(2)]	*177,506*	*6.4*	*204,621*	*6.5*	*160,828*	*6.1*
Products trading	**575,926**	**20.6**	**412,336**	**13.2**	**456,039**	**17.0**
Toluene product trading	*541,042*	*19.4*	*360,815*	*11.6*	*320,085*	*12.0*
Other products trading[(3)]	*34,884*	*1.2*	*51,521*	*1.6*	*135,954*	*5.0*
Total	**2,789,477**	**100.0**	**3,133,836**	**100.0**	**2,677,103**	**100.0**

Notes:

(1) include sales revenue of products processed by Hebei Kangshi under the entrusted processing service arrangement

(2) mainly include benzyl acetate and p-methyl chlorobenzyl

(3) mainly includes p-tolualdehyde, titanium dioxide, benzyl trichloride and p-methyl benzoic acid

Sale of self-produced products

Toluene oxidation products. Our toluene oxidation products mainly include benzoic acid, sodium benzoate and other products such as benzaldehyde and benzyl benzoate. We currently generate a substantial portion of our revenue from sales of toluene oxidation products, which accounted for 47.0%, 49.6% and 50.7% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. For details of this business segment, please refer to "Business — Our Products — Toluene oxidation products and derivatives" in this prospectus.

Toluene chlorination products. Our toluene chlorination products mainly include benzyl chloride and benzyl alcohol. Revenue from toluene chlorination products accounted for 17.5%, 26.5% and 21.9% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. For details of this business segment, please refer to "Business — Our Products — Toluene chlorination products and derivatives" in this prospectus.

Benzoic acid ammonification products. Our benzoic acid ammonification products mainly include benzonitrile and benzoguanamine. Revenue from benzoic acid ammonification products accounted for 8.5%, 4.2% and 4.3% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. For details of this business segment, please refer to "Business — Our Products — Benzoic acid ammonification products and derivatives" in this prospectus.

Other fine chemical products. Our other products mainly include benzyl acetate and p-methyl chlorobenzyl. Revenue from other fine chemical products accounted for 6.4%, 6.5% and 6.1% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. For details of this business segment, please refer to "Business — Our Products — Other fine chemical products" in this prospectus.

Products trading

Toluene product trading. We purchase toluene products from our suppliers and resell them to our customers as part of our business operation. Revenue from toluene product trading accounted for 19.4%, 11.6% and 12.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively.

Other products trading. Apart from toluene products, we also engage in trading of other non-toluene based products. Revenue from other products trading accounted for 1.2%, 1.6% and 5.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively.

Cost of Sales

Our cost of sales consists primarily of costs of consumed raw materials, staff costs, depreciation, utilities, transportation costs, packaging expenses and others. The following table sets forth the major components of our cost of sales which is also the production cost adjusted by changes in work in progress and finished goods and as percentages of total cost of sales for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Consumed raw materials	1,175,641	54.7	1,569,488	64.5	1,384,237	59.0
Transportation costs	116,962	5.4	115,024	4.7	79,796	3.4
Staff costs	44,028	2.0	42,361	1.7	42,989	1.8
Utilities	172,871	8.0	195,210	8.0	192,285	8.2
Depreciation	75,974	3.5	82,252	3.4	98,645	4.2
Changes in work in progress and finished goods	(93,194)	(4.3)	(20,972)	(0.9)	9,447	0.4
Packaging expenses	61,122	2.8	58,485	2.4	50,747	2.2
Cost of toluene product trading	543,743	25.3	335,895	13.8	307,909	13.1
Cost of other products trading	28,579	1.3	38,562	1.6	132,093	5.6
Others	24,629	1.3	18,253	0.8	49,190	2.1
Total	**2,150,355**	**100.0**	**2,434,558**	**100.0**	**2,347,338**	**100.0**

For the years ended December 31, 2021, 2022 and 2023, our cost of sales were RMB2,150.4 million, RMB2,434.6 million and RMB2,347.3 million, respectively.

The following table sets forth the breakdown of our cost of sales by product type and as a percentage of total cost of sales during the Track Record Period:

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of self-produced products	**1,578,033**	**73.4**	**2,060,101**	**84.6**	**1,907,336**	**81.3**
Toluene oxidation products	923,317	42.9	1,244,414	51.1	1,221,249	52.1
Toluene chlorination products	396,579	18.4	602,314	24.7	472,969	20.1
Benzoic acid ammonification products	107,513	5.0	61,948	2.5	78,793	3.4
Other fine chemical products[(1)]	150,624	7.1	151,425	6.3	134,325	5.7
Products trading	**572,322**	**26.6**	**374,457**	**15.4**	**440,002**	**18.7**
Toluene products trading	543,743	25.3	335,895	13.8	307,909	13.1
Other products trading[(2)]	28,579	1.3	38,562	1.6	132,093	5.6
Total	**2,150,355**	**100.0**	**2,434,558**	**100.0**	**2,347,338**	**100.0**

Notes:

(1) mainly include benzyl acetate and p-methyl chlorobenzyl

(2) mainly includes p-tolualdehyde, titanium dioxide, benzyl trichloride and p-methyl benzoic acid

Cost of consumed raw materials constitutes a major portion of our cost of sales. For the years ended December 31, 2021, 2022 and 2023, our cost of consumed raw materials were RMB1,175.6 million, RMB1,569.5 million and RMB1,384.2 million, respectively, which accounted for 54.7%, 64.5% and 59.0% of our total cost of sales for the corresponding periods. The following table sets forth the breakdown of our cost of consumed raw materials during the Track Record Period:

	Year ended December 31,					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Petroleum toluene	898,422	76.4	1,318,317	84.0	1,220,459	88.2
Chlorine gas	64,940	5.5	45,486	2.9	8,089	0.6
Dicyandiamide	44,001	3.7	22,987	1.5	19,289	1.4
Pure soda	42,989	3.7	58,039	3.7	52,412	3.8
Liquid caustic soda	37,218	3.2	53,242	3.4	38,112	2.8
Others	88,071	7.5	71,417	4.5	45,876	3.2
Total	**1,175,641**	**100.0**	**1,569,488**	**100.0**	**1,384,237**	**100.0**

Fluctuations in prices of our raw materials, especially the market prices of petroleum toluene which are primarily affected by the international crude oil prices, may increase our costs of sales. For more information about risks related to raw material price fluctuation, please refer to "Risk Factors — Any shortage in supply of raw materials or material fluctuation in their purchase prices may adversely affect our profit margins and results of operation" in this prospectus.

The table below sets forth the sensitivity analysis on fluctuations in cost of consumed raw materials of petroleum toluene. The analysis illustrates the hypothetical impact on our net profit with 5%, and 10% increase or decrease in cost of consumed raw materials of petroleum toluene. Due to a number of assumptions applied involved in the calculation, the sensitivity analysis below is for illustration purpose only, and the actual results may differ from the illustrations below:

	Change in net profit for change in cost of consumed raw materials of petroleum toluene	
	+/-5%	**+/-10%**
	RMB'000	*RMB'000*
Year ended December 31, 2021	-/+35,308	-/+70,616
Year ended December 31, 2022	-/+52,469	-/+104,938
Year ended December 31, 2023	-/+46,988	-/+93,975

Gross Profit and Gross Profit Margin

For the years ended December 31, 2021, 2022 and 2023, our gross profit were RMB639.1 million, RMB699.3 million and RMB329.8 million, respectively. For the same periods, our gross profit margin were 22.9%, 22.3% and 12.3%, respectively. The following table sets forth the breakdown of our gross profit by product and business segment, and as a percentage of total gross profit during the Track Record Period:

	Year ended December 31,					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of self-produced products	**635,518**	**99.4**	**661,399**	**94.5**	**313,728**	**95.1**
Toluene oxidation products	388,205	60.7	310,768	44.4	135,138	41.0
Toluene chlorination products	90,933	14.2	228,991	32.7	114,630	34.7
Benzoic acid ammonification products	129,497	20.3	68,444	9.8	37,457	11.4
Other fine chemical products	26,883	4.2	53,196	7.6	26,503	8.0
Products trading	**3,604**	**0.6**	**37,879**	**5.5**	**16,037**	**4.9**
Toluene product trading	(2,701)	(0.4)	24,920	3.6	12,176	3.7
Other products trading	6,305	1.0	12,959	1.9	3,861	1.2
Total	**639,122**	**100.0**	**699,278**	**100.0**	**329,765**	**100.0**

The following table sets forth our gross profit margin by product and business segment during the Track Record Period:

	Year ended December 31,		
	2021	**2022**	**2023**
Sale of self-produced products	**28.7%**	**24.3%**	**14.1%**
Toluene oxidation products	29.6%	20.0%	10.0%
Toluene chlorination products	18.7%	27.5%	19.5%
Benzoic acid ammonification products	54.6%	52.5%	32.2%
Other fine chemical products	15.1%	26.0%	16.5%
Products trading	**0.6%**	**9.2%**	**3.5%**
Toluene product trading	(0.5)%	6.9%	3.8%
Other products trading	18.1%	25.2%	2.8%
Gross profit margin	**22.9%**	**22.3%**	**12.3%**

Our gross profit margins fluctuated during the Track Record Period, which was mainly affected by the fluctuation in average selling prices as well as costs of our self-produced products and products trading, including the cost of petroleum toluene, our major raw material used for production, and other manufacturing costs. Generally, our Company is able to transfer the fluctuations in cost of raw materials to our downstream buyers, but occasionally this may not be fully and instantly reflected in the sales prices of our products due to the changes in the market condition and the pricing policy we adopted from time to time. Despite market fluctuations, we maintain a relatively high gross profit margin for our self-produced products in 2021 and 2022, which was primarily due to: (i) the relative lower purchase price for the primary raw material as a result of our long-term sound relationship with our suppliers and capability to procure large quantities of raw materials; (ii) our market bargaining power benefitted from our long-standing operation history and leading market position, please refer to the "Industry Overview" in this prospectus for our leading market position for toluene derivative products; (iii) the relatively higher production utilisation rates which enable us to maintain scale-effect advantages; (iv) our refined manufacturing technologies which significantly reduced waste of raw materials and extended the production line to produce more marketable downstream products; and (v) high-quality of our products that commands a higher selling price. Our gross profit margin decreased in 2023 primarily due to a disproportional decrease in average selling prices of our major products due to macroeconomic and industry factors. For details of the decrease of our gross profit margins in 2023, please refer to "— Discussion of Results of Operations — Year ended December 31, 2022 compared with the year ended December 31, 2023" in this section.

Petroleum toluene is the primary raw material used for the manufacturing of our self-produced products, and we secure our supply through purchases and trade of petroleum toluene which is also the main component of our products trading business. We obtain our supply of petroleum toluene from a selected number of major suppliers in the PRC market during the Track Record Period. Generally, the major suppliers of petroleum toluene may prioritize selling their products to purchasers with established business relationship, and these purchasers commonly place large purchase amount orders to ensure that they maintain a stable supply of raw materials at a relatively lower costs for the manufacturing of their products. According to Frost & Sullivan, one of the key criteria used by these major suppliers is the purchasers' consistent demand for petroleum toluene at a stable quantity from year to year. As one of the most long-standing toluene derivative products manufacturer in China, we have established long-term business relationships with a number of petroleum toluene suppliers. Since 2012, we have been rated as an "AAA" customer by SINOPEC Huazhong, a branch of a wholly-owned subsidiary of SINOPEC and one of the largest suppliers of petroleum toluene in China. Due to our top rating and established business relationship, we are afforded the right to place large-scale procurement orders of petroleum toluene as a result of this qualification.

We entered into framework procurement agreements with major petroleum toluene suppliers and are entitled to place large-scale procurement orders at a relatively low price. During the Track Record Period, the average unit cost for our petroleum toluene was approximately RMB4,973 per ton, RMB6,710 per ton and RMB6,654 per ton for the years ended December 31, 2021, 2022 and 2023, respectively, whereas the average market price (tax included) of toluene was approximately RMB5,628 per ton, RMB7,410 per ton and RMB7,249 per ton for the same periods. We use the purchased petroleum toluene as the primary raw material for the manufacturing of our self-produced products, and our large-scale procurements afford us the ability to secure petroleum toluene at a relatively low price which enabled us to record higher gross profit and gross profit margin for our self-produced products. Our industry consultant, Frost & Sullivan, is of the view that it is not uncommon for chemical manufacturers with a leading position in the market and established business relationship with major suppliers to enjoy strong pricing power and advantages in purchase cost and economic of scale, and therefore command high gross profit margin.

Moreover, we maintained a high-level production capacity utilisation rates for our production plants during the Track Record Period, which were 102.4%, 122.8% and 104.0% for our Wuhan Production Plant and 91.8%, 91.7% and 86.4% for our Qianjiang Xinyihong Production Plant for the year ended December 31, 2021, 2022 and 2023, respectively.

As we execute our expansion plans to increase our production capacity, we expect our demand for petroleum toluene to increase in the future. To ensure our ability to access a steady supply of petroleum toluene in the long-run, we maintained a consistent large-scale procurement from our suppliers from year to year to solidify our business relationship with our suppliers in light of our expansion plan and adopt products trading as a strategy to manage our inventory. Generally, when our raw material inventory meets and exceeds the requirements for our production, we may engage in toluene product trading business to sell our surplus inventory by obtaining information and tracking market opportunities on the Independent Commodity Intelligence Services (ICIS) to improve our cash-flow position. According to Frost & Sullivan, products trading business is a common strategy used by the industry to ensure a steady supply of raw materials and minimize the impact of excess purchases.

We utilize this strategy and normally purchase a consistent supply of petroleum toluene from year to year based on our market projections and resell certain portion of the petroleum toluene when our raw material inventory meets our production requirement on an annual basis. Furthermore, we conduct product trading to ensure our fluent access to raw materials due to the adoption of product trading which in turn enhances our capacity to manufacture cost-efficient self-produced products and maintain our market leading position. In 2022, we were able to generate substantial gross profit for our products trading business in the amount of RMB37.9 million and a gross profit of RMB24.9 million for toluene product trading due to our efficient inventory management in taking advantage of the favourable market price trends in the first half of 2022. According to Frost & Sullivan, the average market price of toluene increased from approximately RMB5,852 per ton in January to RMB8,672 per ton in June in the first half of 2022.

Going forward, in order to control the potential risks associated with our large-scale purchase amount of petroleum toluene such as price fluctuation under the framework procurement agreements, we intend to further enhance our raw material inventory management through (i) monthly production schedule meetings to determine the raw material consumption amount for the next month; (ii) close and amicable communications with our major suppliers to maintain certain flexibility in the purchase amount for each month; and (iii) enhanced coordination with third-party shipping companies and warehousing companies to improve the accuracy of the loading time and transit time of main raw materials, so that we can better manage our inventory and avoid unexpected transportation delays.

Other Income and Gains

Our other income and gains primarily consist of interest income and government grants. Government grants mainly represent subsidies we received from the local governments to subsidize us for expenses spent on research, funds for retaining professional talents and subsidies received for purchase of assets, and for export development. The amount of government grants were subject to the discretion of the relevant government authority, and the government grants related to income increased significantly in 2022 because the amount of government grants for export development increased from RMB1.0 million in 2021 to RMB8.1 million in 2022. The amount of government grants for export development decreased to RMB0.2 million in 2023. Our sundry income mainly includes technology service earnings and income from sales of manufacturing residuals, which decreased from 2021 because there was technology service earnings of RMB3.0 million and sales of manufacturing residuals of

RMB1.6 million in 2021. The table below sets forth a breakdown of our other income and gains and the respective percentage of total other income and gains for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Other income						
Interest income	19,295	48.4	5,632	16.3	3,310	13.0
Government grants related to income	3,882	9.7	12,447	36.1	6,425	25.2
Government grants related to assets	3,230	8.1	4,570	13.2	5,353	21.0
Sundry income	10,767	27.0	6,009	17.4	2,669	10.5
Entrusted processing service income	959	2.4	1,248	3.6	1,398	5.5
Rental income – fixed lease payments	1,562	3.9	1,774	5.1	1,774	7.0
Gain on disposal of items of property, plant and equipment	–	–	–	–	3	0.0
Gain on lease modification	–	–	–	–	81	0.3
Other gains						
Foreign exchange differences, net	–	–	2,268	6.6	3,617	14.2
Others	206	0.5	566	1.7	875	3.4
Total	**39,901**	**100.0**	**34,514**	**100.0**	**25,505**	**100.0**

Selling and Distribution Expenses

Our selling and distribution expenses consist of staff costs, depreciation and amortization, marketing expenses, business hospitality expenses, property insurance premiums, technology service charges, and others. Staff costs consist of the salaries and benefits to our in-house sales team. Marketing expenses include promotional expenses that mainly consist of expenses associated with various marketing and development activities, and business hospitality expenses that mainly consist of expense incurred by our marketing team conducting sales activities. For the years ended December 31, 2021, 2022 and 2023, we recorded selling and distribution expenses of RMB19.8 million, RMB24.0 million and RMB20.7 million, respectively.

The following table sets forth a breakdown and the respective percentage of our selling and distribution expenses for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	11,573	58.4	14,472	60.3	13,049	63.0
Business hospitality expenses	2,933	14.8	3,284	13.7	2,213	10.7
Technology service charges	1,543	7.8	1,942	8.1	611	2.9
Property insurance premiums	715	3.6	684	2.8	847	4.1
Depreciation and amortization	292	1.5	256	1.1	189	0.9
Marketing expenses	452	2.2	361	1.5	2,202	10.6
Others	2,312	11.7	3,010	12.5	1,607	7.8
Total	**19,820**	**100.0**	**24,009**	**100.0**	**20,717**	**100.0**

Administrative Expenses

Our administrative expenses consist of general management expenses, tax and surcharges and listing expenses. General management expenses consist of staff costs for our administrative and management personnel, depreciation and amortization, property management fees, and other expenses including travel expenses and utilities, technology service charges and consulting fees. For the years ended December 31, 2021, 2022 and 2023, we recorded administrative expenses of RMB100.5 million, RMB116.5 million and RMB95.4 million, respectively.

The following table sets forth the breakdown and respective percentage of our administrative expenses for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	45,284	45.1	48,503	41.6	33,315	34.9
Tax and Surcharges	11,350	11.3	16,709	14.3	13,545	14.2
Depreciation and amortization	17,062	17.0	14,461	12.5	13,931	14.6
Property management fees	5,352	5.3	8,704	7.5	8,935	9.4
Listing expenses	7,840	7.8	14,371	12.4	10,118	10.6
Others	11,569	13.5	13,750	11.8	15,571	16.3
Total	**100,457**	**100.0**	**116,498**	**100.0**	**95,416**	**100.0**

Research and Development Expenses

Our research and development expenses consist of staff costs for our research and development personnel, article of consumption, depreciation and amortization of research and development equipment, and other expenses including technology service charges and consulting fees. For the years ended December 31, 2021, 2022 and 2023, we recorded research and development expenses of RMB110.8 million, RMB133.0 million and RMB100.0 million, respectively.

The following table sets forth a breakdown and respective percentage of our research and development expenses for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Article of consumption	54,948	37.9	66,294	49.8	42,798	42.8
Staff costs	42,039	49.6	46,693	35.1	35,506	35.5
Depreciation and amortization	6,891	6.2	8,098	6.1	10,399	10.4
Others	6,953	6.3	11,916	9.0	11,256	11.3
Total	**110,831**	**100.0**	**133,001**	**100.0**	**99,959**	**100.0**

Other Expenses

Our other expenses consist primarily of impairment for long-term equity investment and other non-operating expenses. For the years ended December 31, 2021, 2022 and 2023, we recorded other expenses of RMB22.8 million, RMB5.4 million and RMB4.8 million, respectively.

Finance Costs

Our finance costs mainly consist of interest expenses on bank loans, other borrowings and lease liabilities. For the years ended December 31, 2021, 2022 and 2023, we recorded finance costs of RMB34.1 million, RMB31.0 million and RMB32.3 million, respectively.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Interest on bank loans and other borrowings	30,894	90.7	27,832	89.7	30,267	93.8
Interest on discounted bills	1,485	4.4	798	2.6	89	0.2
Interest on lease liabilities	1,687	4.9	2,396	7.7	1,925	6.0
Total	**34,066**	**100.0**	**31,026**	**100.0**	**32,281**	**100.0**

Income Tax Expense

Our income tax expense primarily consists of the current income tax at the statutory rates applicable to our assessable profit before tax as determined under relevant laws and regulations in China and Hong Kong. We incurred current withholding tax of RMB117.8 million and RMB30.0 million in 2022 and 2023 respectively, as a result of dividends declared and distributed by our mainland subsidiary Wuhan Youji to its offshore shareholders in 2022 and 2023 respectively. Therefore, a 10% withholding tax was charged and paid to the China tax authorities pursuant to the relevant PRC laws and regulations. For the years ended December 31, 2021, 2022 and 2023, our effective tax rate were 21.4%, 20.4% and 23.0%, respectively.

Profit for the Year

We recorded net profit of RMB309.1 million, RMB340.5 million and RMB72.9 million for the years ended December 31, 2021, 2022 and 2023, respectively.

Taxation

Cayman Islands

We are incorporated in the Cayman Islands as a company with limited liability under the Companies Act and, accordingly, are not subject to income tax in the Cayman Islands.

British Virgin Islands

We are not subject to tax on income or capital gains under the current laws of British Virgin Islands.

Hong Kong

Our subsidiaries in Hong Kong are subject to profits tax at the rate of 16.5% for each year of period on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of our Company, Wuhan Youji (Hong Kong) Co., Limited, which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

PRC

Our subsidiaries in China are subject to Enterprise Income Tax ("**EIT**") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law ("**EIT Law**"). Our subsidiaries in China are generally subject to EIT at the statutory rate of 25% pursuant to the EIT Law. Our subsidiaries, Wuhan Youji Industries Co., Ltd. and Qianjiang Xinyihong Organic Chemical Co., Ltd. are qualified as High and New Technology Enterprise and have been subject to tax at a preferential income tax rate of 15% throughout the Track Record Period. The qualifications were extended in 2021 for three years. Since May 1, 2016, certain PRC enterprises have been required to pay a value-added tax ("**VAT**") in lieu of business tax. All our subsidiaries in China are subject to 13% VAT. For more information on PRC taxation policies, please refer to "Regulatory Overview — Laws and Regulations Relating to Tax in the PRC" in this prospectus.

Any discontinuation of preferential tax treatment to which we are currently entitled to or any unfavorable tax policy change against us or our operating subsidiaries could have an adverse impact on the results of our operations. For more information about such risk, please refer to "Risk Factors — Our business operations may be affected by regulatory changes" in this prospectus.

DISCUSSION OF RESULTS OF OPERATIONS

Year ended December 31, 2022 compared with the year ended December 31, 2023

Revenue

Our total revenue decreased by 14.6% from RMB3,133.8 million in 2022 to RMB2,677.1 million in 2023.

The chemical industry, in particular toluene oxidation and chlorination products industry, experienced a challenging year in 2023 as impacted by the uncertainty surrounding the economic environment globally as well as in the PRC following the slower than expected recovery from COVID-19 and the geopolitical tension, which in turn has a widespread negative impact on the customers' spending on various downstream industries. Although our downstream customers mainly relates to daily necessities such as food and beverages and pharmaceutical which have relatively stable demands, they could delay their purchases and reduce their inventory level in light of the uncertain economic environment, which in turn adversely affects their demand on chemical products. At the same time, the petroleum price remained at a relatively low level throughout 2023, which is unfavourable to chemical prices. According to the National Bureau of Statistics, the Purchasing Manager's Index (PMI) was consistently below 50 throughout majority of 2023 while the Producer Price Index (PPI) in the PRC dropped from 9.1% in January 2022 to negative level since October 2022 and throughout 2023, representing a shrink in the upstream manufacturing industries and a drop in ex-factory price. At the same time, Consumer Price Index (CPI) in the PRC also dropped to a level close to zero in 2023 indicating an overall weak consumer sentiment in 2023. According to the World Bank, global economy shown a decelerating trend with the global GDP growth fell from 3.0% in 2022 to 2.6% in 2023.

In light of the unfavorable economic environment and the reduced consumer demand, as a prudence measure to maintain greater liquidity and flexibility at the time of uncertainties, many downstream industry customers tend to lower their inventory level or slow down their inventory replenishment, resulting in sluggish demand for fine chemicals. This was completely opposite to the market circumstances in 2022 where the chemical industry was at a boom and the downstream industrial customers were stocking up as they foresee there could be an increase in selling prices of chemicals, including the price of toluene oxidation and chlorination products. The above are coupled with the expansion in capacity of some of the market players in toluene oxidation products which were put into operation since late 2022 which further increases the market supply of toluene oxidation products. These factors had an immediate adverse impact on the chemical industry. The increase in market supply of toluene oxidation products further intensified the market competition amid time of weak demands, which has an immediate adverse impact on the market participants as it takes time to digest the increased production capacity. All of which further exert significant downward pressure on product pricing. This circumstance was a reversal of the marketing condition in 2022 when demand was much higher than the supply, which positioned chemical manufacturers in an ideal market position.

To cope with the unfavourable market sentiment, we adopted a strategy to sell our products at a lower prices so as to maintain our market position and the utilization rate of our production facilities at an optimal level while at the same time, maintain or even increase our market shares. With our competitive advantages as a leading player in the market, we view it as an opportunity to further strengthen our market position as we are able to effectively compete in the market in such circumstances. According to Frost and Sullivan, our Group remained as the largest manufacturer for both benzoic acid and sodium benzoate in the PRC in terms of the sales revenue in 2023 with our market share increased from 59.1% and 37.3% in 2022 to 62.0% and 37.9% in 2023.

As a result of the foregoing, the total sales volume of our products decreased from approximately 375,848 tons in 2022 to 346,147 tons in 2023. In addition to the decrease in sales volume, the market price of our products also decreased due to the market slowdown and uncertainties. For example, the average sales price of our toluene oxidation products decreased from RMB9,150 per ton in 2022 to RMB8,267 per ton in 2023. As a result, our revenue decreased in 2023.

Sale of self-produced products. Revenue from sales of our self-produced products decreased by 18.4% from RMB2,721.5 million in 2022 to RMB2,221.1 million in 2023, primarily due to the decrease in average sales price of our self-produced products from RMB8,536 per ton to RMB7,957 per ton for the corresponding periods. The decrease in market demands also lowered our sales volume from 318,818 tons in 2022 to 279,147 tons in 2023. To maintain our market share, we adopted a market-oriented pricing strategy to sell our products at a relatively lower price. For details of our strategy in response to the changes in market circumstances, please refer to "Business — Our Strategies — Timely respond to changes in market circumstances by adjusting sales and pricing strategies" in this prospectus.

- *Toluene oxidation products*. Revenue from toluene oxidation product sales decreased by 12.8% from RMB1,555.2 million in 2022 to RMB1,356.4 million in 2023, primarily due to the decrease in downstream market demand and the increase in market supply. Therefore, we adopted a market-oriented pricing strategy to sell our products at a relatively lower price to maintain our market share. The sales volume for toluene oxidation products decreased from approximately 169,962 tons in 2022 to 164,071 tons in 2023. The average sales price for toluene oxidation products decreased from approximately RMB9,150 per ton to RMB8,267 per ton for the corresponding periods.

- *Toluene chlorination products*. Revenue from toluene chlorination product sales decreased by 29.3% from RMB831.3 million in 2022 to RMB587.6 million in 2023, as a result of the decreases in sales volume from 61,988 tons to 52,299 tons as well as the decrease in average sales price from RMB13,411 per ton to RMB11,235 per ton for the corresponding periods. There was a downward trend in the downstream market demand in 2023, and we strategically sold our products at a relatively lower price in light of the challenging economic environment and to enhance our market position. The drop in price of chlorine gas as our raw material also has an impact on our pricing.

- *Benzoic acid ammonification products*. Our revenue from benzoic acid ammonification product sales decreased by 10.8% from RMB130.4 million in 2022 to RMB116.3 million in 2023, as a result of the decrease in average sales price from approximately RMB28,232 per ton to RMB17,415 per ton for the corresponding periods. This decrease was partially offset by the increase in sales volume from approximately 4,619 tons to 6,675 tons for the corresponding periods.

- *Other fine chemical products*. Our revenue from other product sales decreased by 21.4% from RMB204.6 million in 2022 to RMB160.8 million in 2023, primarily due to the decrease in sales volume from approximately 82,249 tons to 56,102 tons for the corresponding periods.

Products trading. Our revenue from products trading increased by 10.6% from RMB412.3 million in 2022 to RMB456.0 million in 2023. This increase was primarily due to the increase in sales volume from approximately 57,030 tons to 67,000 tons for the corresponding periods.

- *Toluene product trading*. Our revenue from toluene product trading decreased by 11.3% from RMB360.8 million in 2022 to RMB320.1 million in 2023. This decrease was primarily the result of the decrease in trading volume from approximately 54,823 tons to 49,295 tons for the corresponding periods.

- *Other products trading*. Our revenue from other products trading increased significantly by 163.9% from RMB51.5 million in 2022 to RMB136.0 million in 2023, primarily due to the significant increase in sales volume from approximately 2,207 tons to 17,705 tons for the corresponding periods mainly attributable to the purchase of finished products from Hebei Kangshi for products trading as it ramp up its production in 2023.

Cost of Sales

Our cost of sales decreased by 3.6% from RMB2,434.6 million in 2022 to RMB2,347.3 million in 2023, as the result of the decrease in total sales volume of our self-produced products from approximately 318,818 tons to 279,147 tons and toluene product trading from approximately 54,823 tons to 49,295 tons for the corresponding periods.

Sale of self-produced products. Cost of sales for our self-produced products decreased by 7.4% from RMB2,060.1 million in 2022 to RMB1,907.3 million in 2023, which was primarily due to the decrease in sales volume from approximately 318,818 tons to 279,147 tons and the decrease in raw material, in particular, chlorine gas prices for the corresponding periods.

- *Toluene oxidation products*. Cost of sales of our toluene oxidation products decreased by 1.9% from RMB1,244.4 million in 2022 to RMB1,221.2 million in 2023, primarily due to the decrease of sales volume from approximately 169,962 tons to 164,071 tons for the corresponding periods.

- *Toluene chlorination products*. Cost of sales of our toluene chlorination products decreased by 21.5% from RMB602.3 million in 2022 to RMB473.0 million in 2023, primarily due to the decrease in sales volume from approximately 61,988 tons to

52,299 tons and the decrease in chlorine gas prices from RMB967 per ton to RMB186 per ton in the corresponding periods.

- *Benzoic acid ammonification products*. Cost of sales of our benzoic acid ammonification products increased by 27.2% from RMB61.9 million in 2022 to RMB78.8 million in 2023, primarily due to the increase in sales volume from approximately 4,619 tons to 6,675 tons for the corresponding periods. This increase was partially offset by the decrease in raw material costs of dicyandiamide from approximately RMB21,466 per ton to RMB12,560 per ton for the corresponding periods.

- *Other fine chemical products*. Cost of sales of our other fine chemical products decreased by 11.3% from RMB151.4 million in 2022 to RMB134.3 million in 2023, which was primarily attributed to the decrease in the sales volume of certain other fine chemical products, such as p-methyl benzyl chloride.

Products trading. Cost of products trading increased by 17.5% from RMB374.5 million in 2022 to RMB440.0 million in 2023. This increase was primarily due to the increase in sales volume of trading products from approximately 57,030 tons to 67,000 tons.

- *Toluene product trading*. Cost of sales for toluene product trading decreased by 8.3% from RMB335.9 million in 2022 to RMB307.9 million in 2023. The decrease in cost of sales for toluene product trading primarily resulted from the decrease in sales volume from approximately 54,823 tons in 2022 to 49,295 tons in 2023 and partially offset by the increase in average unit cost of toluene from approximately RMB6,127 per ton to RMB6,246 per ton.

- *Other products trading*. Cost of sales for other products trading increased significantly by 242.5% from RMB38.6 million in 2022 to RMB132.1 million in 2023, due to the increase in sales volume from approximately 2,207 tons to 17,705 tons for the corresponding periods.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 52.8% from RMB699.3 million in 2022 to RMB329.8 million in 2023. The significant decrease is mainly attributable to the combined effects of the following:

(1) The decrease in our products' sales volume and price due to macroeconomic and industry factors adversely impacted our gross profits and gross profit margins. The slower-than-expected recovery of economy from the pandemic caused significant reduction in downstream demand amid the significant economic uncertainties in the PRC and globally. In addition, the increase in market supply of toluene oxidation products further intensified the market competition. For details, please refer to "— Discussion of Results of Operations — Year ended December 31, 2022 compared with the year ended December 31, 2023 — Revenue" in this section. This levied significant pressure on the Group's pricing. Therefore, we strategically lowered the selling prices of its products in order to effectively compete with its competitors to maintain the utilization rate of its production facilities at an optimal level and to keep our market share, which adversely impacted the gross profit

margin. For details of our strategy in response to the changes in market circumstances, please refer to "Business — Our Strategies — Timely respond to changes in market circumstances by adjusting sales and pricing strategies" in this prospectus; and

(2) A relatively lower production plant utilization rate compared to our past performance and the maintenance of our production plant in February 2023, also impacted our gross profit margin. Generally, we conduct annual maintenance for our production plants each year. However, the length and timing of annual maintenance may vary based on our manufacturing arrangement. We scheduled an annual maintenance from late January to late February 2023 when most of the manufacturing and trading activities had been temporarily suspended. In the past, we conducted maintenance from late December 2021 to early January 2022. As a result of the challenging market environment and our annual maintenance, the utilization rate of our Wuhan Production Plant decreased from 122.8% in 2022 to 104.0% in 2023, and the utilization rate of our Qianjiang Xinyihong Production Plant decreased from 91.7% in 2022 to 86.4% in 2023. This lower utilization rate in turn increased the per unit costs of our products and thus adversely affecting our gross profit and gross profit margin.

Sale of self-produced products. Our gross profit of self-produced product sales decreased by 52.6% from RMB661.4 million in 2022 to RMB313.7 million in 2023, which was consistent with the decrease of revenue generated from sales of self-produced products from RMB2,721.5 million to RMB2,221.1 million for the corresponding periods. The gross profit margin of our self-produced products decreased from 24.3% in 2022 to 14.1% in 2023.

- *Toluene oxidation products*. Our gross profit of toluene oxidation product sales decreased by 56.5% from RMB310.8 million in 2022 to RMB135.1 million in 2023, which was the combined effect of the decrease in average sales price from approximately RMB9,150 per ton to RMB8,267 per ton and the decrease in sales volume from approximately 169,962 tons to 164,071 tons for the corresponding periods. The gross profit margin of our toluene oxidation products decreased from 20.0% to 10.0% due to the decrease in downstream market demands and our decision to reduce our sales prices in order to compete with our competitors to maintain our market share and maintain the utilization rate of our production facilities at an optimal level. The increase in market supply of toluene oxidation products further intensified the market competition, which exerted further pressure on our pricing. Our one-month maintenance shutdown in our Wuhan Production Plant from January to February in 2023 and lower utilization rate, which led to the lower production volume of our products and higher average unit cost, also contributed to this decrease.

- *Toluene chlorination products*. Our gross profit of toluene chlorination product sales decreased by 49.9% from RMB229.0 million in 2022 to RMB114.6 million in 2023, which was due to the decrease in sales volume from 61,988 tons to 52,299 tons and the decrease in gross profit margin of our toluene chlorination products from 27.5% to 19.5% for the corresponding periods. This decrease was primarily due to the decrease in average sales price from approximately RMB13,411 per ton to RMB11,235 per ton for the corresponding periods as a result of the decrease in downstream market demands and our decision to reduce our sales prices in order to compete with our competitors to maintain our market share and maintain the utilization rate of our production facilities at an optimal level.

- *Benzoic acid ammonification products*. Our gross profit of benzoic acid ammonification product sales decreased by 45.3% from RMB68.4 million in 2022 to RMB37.5 million in 2023, which was in line with the decrease in average sales price in 2023 from approximately RMB28,232 per ton to RMB17,415 per ton for the corresponding periods which caused the decrease in revenue of our benzoic acid ammonification products, and partially offset by the increase in sales volume from 4,619 tons to 6,675 tons. The gross profit margin of our benzoic acid ammonification products decreased from 52.5% to 32.2%. The overall market for benzoic acid ammonification products experienced a contraction in 2023. In response, we adopted a market-oriented pricing strategy to sell our products at a relatively lower price to effectively compete in the market. As a result of our pricing strategy, we achieved an increase in sales volume in 2023 to partially offset the decrease in revenue caused by the decrease in market price.

- *Other fine chemical product sales*. Our gross profit of other fine chemical product sales decreased by 50.2% from RMB53.2 million in 2022 to RMB26.5 million in 2023, primarily due to the decrease in sales volume from 82,249 tons to 56,102 for the corresponding periods. The gross profit margin of our other fine chemical product sales decreased from 26.0% to 16.5% for the corresponding periods due to the fact that a greater percentage of our other fine chemicals sold were sold with lower profit margin in light of the weak chemical market sentiment.

Products trading. Our gross profit of products trading decreased by 57.7% from RMB37.9 million to RMB16.0 million for the year ended December 31, 2022 and 2023, respectively, as a result of the decrease in the gross profit margin from 9.2% to 3.5%.

- *Toluene product trading*. Our gross profit of toluene product trading decreased by 51.1% from RMB24.9 million in 2022 to RMB12.2 million in 2023, mainly due to the decrease in trading volume from approximately 54,823 tons to 49,295 tons for the corresponding periods and the decrease in the gross profit margin from 6.9% to 3.8% caused by the slight decrease in sales price due to the slight decrease in petroleum toluene price in 2023.

- *Other products trading*. Gross profit of other products trading decreased by 70.2% from RMB13.0 million in 2022 to RMB3.9 million in 2023, and the gross profit margin decreased from 25.2% to 2.8% for the corresponding periods. These decreases were primarily due to the increase of trading volume of certain products purchased from Hebei Kangshi during its ramp up period which had relatively lower gross profit margin as well as the decrease in trading of benzaldehyde, which is a product of higher gross profit margin, due to weak market demand.

Other Income and Gains

Our other income and gains decreased by 26.1% from RMB34.5 million in 2022 to RMB25.5 million in 2023 due to (i) the settlement of loans to Linuo Group, which led to the decrease in interest income, and (ii) the decrease in government grants related to income received during the period.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 13.7% from RMB24.0 million in 2022 to RMB20.7 million in 2023, primarily due to the decrease in performance bonus to our employees.

Research and Development Expenses

Our research and development expenses decreased by 24.8% from RMB133.0 million in 2022 to RMB100.0 million in 2023, primarily due to the decrease in staff costs for our research and development employees resulting from the decrease in performance bonus to our employees and the decrease in articles of consumption.

Administrative Expenses

Our administrative expenses decreased by 18.1% from RMB116.5 million in 2022 to RMB95.4 million in 2023, primarily due to the decrease in staff costs resulting from the decrease in performance bonus to our employees and the decrease in listing expenses and tax and surcharges.

Other Expenses

Our other expenses decreased by 10.6% from RMB5.4 million in 2022 to RMB4.8 million in 2023, primarily due to the decrease in handling charges.

Finance Costs

Our finance costs increased by 4.0% from RMB31.0 million in 2022 to RMB32.3 million in 2023 due to the increased bank loans. For details, please refer to "— Indebtedness — Interest-Bearing Bank and Other Borrowings" in this section.

Income Tax Expense

Our income tax expenses decreased by 75.0% from RMB87.2 million in 2022 to RMB21.8 million in 2023 due to the significant decrease in profit before tax. Our effective tax rate slightly increased from 20.4% to 23.0% for the same corresponding period.

Profit for the Year

As the result of the foregoing reasons, our profit for the year decreased by 78.6% from RMB340.5 million in 2022 to RMB72.9 million in 2023.

Year ended December 31, 2021 compared with the year ended December 31, 2022

Revenue

Our total revenue increased by 12.3% from RMB2,789.5 million in 2021 to RMB3,133.8 million in 2022, primarily due to the increase in average sales price and sales volume of our toluene oxidation and chlorination products, and partially offset by the decrease in average sales price and sales volume of our benzoic acid ammonification products and the decrease in sales volume of toluene trading products. The total sales volume of our products increased from approximately 362,302 tons in 2021 to 375,848 tons in 2022.

Sale of self-produced products. Revenue from sales of our self-produced products increased by 22.9% from RMB2,213.6 million in 2021 to RMB2,721.5 million in 2022, primarily due to the increase in average sales price and sales volume of our toluene oxidation and chlorination products, and partially offset by the decrease in average sales price and sales volume of our benzoic acid ammonification products. The average sales price of our toluene chlorination products increased significantly in 2022 due to (i) the market supply shortage and our market bargaining power established through our ability to supply these products; and (ii) the significant increase in the average purchase price of petroleum toluene, the major raw materials used in the production, as a result of changes in the macro-environment of global politics and economy.

- *Toluene oxidation products*. Revenue from toluene oxidation product sales increased by 18.6% from RMB1,311.5 million in 2021 to RMB1,555.2 million in 2022, primarily due to the increases in sales volume and average sales price of toluene oxidation products. The sales volume for toluene oxidation products increased from approximately 161,028 tons in 2021 to 169,962 tons in 2022. The average sales price for toluene oxidation products increased from approximately RMB8,145 per ton in 2021 to RMB9,150 per ton in 2022.

- *Toluene chlorination products*. Revenue from toluene chlorination product sales increased significantly by 70.5% from RMB487.5 million in 2021 to RMB831.3 million in 2022, primarily as a result of the significant increase in average sales price from approximately RMB9,519 per ton in 2021 to RMB13,411 per ton in 2022. The significant increase in average sales price was due to market supply shortages, and our ability to supply these products increased our market bargaining power. In addition, the sales volume of our toluene chlorination products also increased from approximately 51,217 tons in 2021 to 61,988 tons in 2022, primarily due to the increase sales of benzyl alcohol.

- *Benzoic acid ammonification products*. Our revenue from benzoic acid ammonification product sales decreased by 45.0% from RMB237.0 million in 2021 to RMB130.4 million in 2022, as a result of the decrease in sales volume from approximately 7,921 tons in 2021 to 4,619 tons in 2022, and the decrease in average sales price from approximately RMB29,920 per ton to RMB28,232 per ton in the corresponding years. The decreases in sales volume and average sales price of our benzoic acid ammonification products were primarily due to the general increase in market supply.

- *Other fine chemical products*. Our revenue from other product sales increased by 15.3% from RMB177.5 million in 2021 to RMB204.6 million in 2022, primarily due to the increase in sales volume of other fine chemical products with high-quality in 2022.

Products trading. Our revenue from products trading decreased by 28.4% from RMB575.9 million in 2021 to RMB412.3 million in 2022. This decrease was the result of the decrease in sales volume from 113,840 tons in 2021 to 57,030 tons in 2022, and partially offset by the increase in average sales price of our traded products from approximately RMB5,059 per ton to RMB7,230 per ton in the corresponding years.

- *Toluene product trading*. Our revenue from toluene product trading decreased by 33.3% from RMB541.0 million in 2021 to RMB360.8 million in 2022. This decrease was the result of the decrease in sales volume from approximately 112,272 tons in 2021 to 54,823 tons in 2022, which was in turn due to our increased internal demand for petroleum toluene for the manufacturing of our self-produced products in 2022 as well as market fluctuations in 2022. This decrease was partially offset by the increase in average sales price from approximately RMB4,819 per ton to RMB6,581 per ton in the corresponding years.

- *Other products trading*. Our revenue from other products trading increased by 47.7% from RMB34.9 million in 2021 to RMB51.5 million in 2022, primarily due to the increase in sales volume from approximately 1,568 tons in 2021 to 2,207 tons in 2022.

Cost of Sales

Our cost of sales increased by 13.2% from RMB2,150.4 million in 2021 to RMB2,434.6 million in 2022, as the result of the increase in total sales volume from approximately 362,302 tons in 2021 to 375,848 tons in 2022. Similarly, the average unit price of petroleum toluene, the primary raw material used for our production, increased from approximately RMB4,973 per ton to RMB6,710 per ton in the corresponding years.

Sale of self-produced products. Cost of sales for our self-produced products increased by 30.5% from RMB1,578.0 million in 2021 to RMB2,060.1 million in 2022, which was primarily due to the increase in sales volume of our toluene oxidation and chlorination products as well as the increase in price of raw materials.

- *Toluene oxidation products*. Cost of sales of our toluene oxidation products increased by 34.8% from RMB923.3 million in 2021 to RMB1,244.4 million in 2022, primarily due to the increase of sales volume from approximately 161,028 tons to 169,962 tons and the increase in raw material costs of petroleum toluene from approximately RMB4,973 per ton to RMB6,710 per ton in the corresponding years. In the first half of year 2022, we commenced expansion of our production of melt-crystallized benzoic acid with an increased annual designed production capacity of approximately 60,000 tons under our toluene oxidation products, which also contributed to the increase in cost of sales.

- *Toluene chlorination products*. Cost of sales of our toluene chlorination products increased by 51.9% from RMB396.6 million in 2021 to RMB602.3 million in 2022, due to the combined effects of the increase in sales volume from approximately 51,217 tons to 61,988 tons and the increase in raw material costs of petroleum toluene from approximately RMB4,973 per ton to RMB6,710 per ton in the corresponding years.

- *Benzoic acid ammonification products*. Cost of sales of our benzoic acid ammonification products decreased by 42.4% from RMB107.5 million in 2021 to RMB61.9 million in 2022, primarily due to the decrease in sales volume from approximately 7,921 tons to 4,619 tons in the corresponding years resulted from the increased supply of benzoic acid ammonification products from our domestic competitors.

- *Other fine chemical products*. Cost of sales of our other fine chemical products remained stable at RMB150.6 million in 2021 and RMB151.4 million in 2022.

Products trading. Cost of products trading decreased by 34.6% from RMB572.3 million in 2021 to RMB374.5 million in 2022. This decrease was primarily due to the decrease in sales volume from approximately 113,840 tons in 2021 to 57,030 tons in 2022, and partially offset by the increase in average unit cost from approximately RMB5,027 per ton to RMB6,566 per ton in the corresponding years mainly due to the increased average unit price of petroleum toluene in 2022.

- *Toluene product trading*. Cost of sales for toluene product trading decreased by 38.2% from RMB543.7 million in 2021 to RMB335.9 million in 2022, as the sales volume decreased from approximately 112,272 tons to 54,823 tons in the corresponding years. The decrease in cost of sales for toluene product trading was partially offset by the increase in average unit cost from approximately RMB4,843 per ton in 2021 to RMB6,127 per ton in 2022, due to the increased average unit price of petroleum toluene in 2022.

- *Other products trading*. Cost of sales for other products trading increased by 34.9% from RMB28.6 million in 2021 to RMB38.6 million in 2022, primarily attributed to the increase in sales volume from approximately 1,568 tons to 2,207 tons in the corresponding years.

Gross Profit and Gross Profit Margin

Our gross profit increased by 9.4% from RMB639.1 million in 2021 to RMB699.3 million in 2022, which was in line with our revenue growth. Our gross profit margin decreased slightly from 22.9% to 22.3% in the corresponding years, primarily due to the decreased gross profit margin of our self-produced products.

Sale of self-produced products. Our gross profit of self-produced product sales increased by 4.1% from RMB635.5 million in 2021 to RMB661.4 million in 2022, which was consistent with the increase in revenue generated from sales of self-produced products from RMB2,213.6 million to RMB2,721.5 million in the corresponding years, representing a growth rate of 22.9%. The gross profit margin of our self-produced products decreased from 28.7% in 2021 to 24.3% in 2022 mainly due to the increase in average unit cost of petroleum toluene purchased by our Group, the primary raw material used for our production, which increased from approximately RMB4,973 per ton to RMB6,710 per ton in the corresponding years, and the increased cost was not fully transferred to the customers in light of the keen market competition and the volatile downstream market demand as well as our adoption of a market-oriented pricing strategy for some of our products in 2022.

- *Toluene oxidation products*. Our gross profit of toluene oxidation product sales decreased by 19.9% from RMB388.2 million in 2021 to RMB310.8 million in 2022, primarily due to the increase in average unit cost of our toluene oxidation products, which outpaced the increase in average sales price and partially offset by the increase in revenue and sales volume of these products. The gross profit margin of our toluene oxidation products decreased from 29.6% in 2021 to 20.0% in 2022, in light of the keen market competition and the volatile downstream market demand and we employed a market-oriented pricing strategy to sell our products at a relatively lower markup to gain market share. According to Frost & Sullivan, with a steady growth in downstream market demand, the sales volume of specialty chemicals (including toluene derivative products) we provided is sensitive to the fluctuation of its selling price. We adjust our pricing strategy to reflect market competition in order to maintain and enhance our market leading position.

- *Toluene chlorination products*. Our gross profit of toluene chlorination product sales increased significantly by 151.8% from RMB90.9 million in 2021 to RMB229.0 million in 2022 due to the significant increase in average sales price of toluene chlorination products, and in particular at a higher rate of increase relative to the increase in cost of sales for these products. As a result, the gross profit margin of our toluene chlorination products increased significantly from 18.7% to 27.5% in the corresponding years. This increase was primarily due to market supply shortages, and our business strategy and ability to allocate resources in order to manufacture and supply these products which increased our market bargaining power and allowed us to sell our products at a higher price.

- *Benzoic acid ammonification products*. Our gross profit of benzoic acid ammonification product sales decreased by 47.1% from RMB129.5 million in 2021 to RMB68.4 million in 2022, which was in line with the decrease in sales volume by 41.7% from approximately 7,921 tons to 4,619 tons and the decrease in average sales price by 5.6% from approximately RMB29,920 per ton to RMB28,232 per ton in the corresponding years. The gross profit margin of our benzoic acid ammonification products decreased slightly from 54.6% in 2021 to 52.5% in 2022, as we employed a market-oriented pricing strategy to sell our products at a relatively lower price to gain market share.

- *Other fine chemical product sales*. Our gross profit of other fine chemical product sales increased significantly by 97.9% from RMB26.9 million in 2021 to RMB53.2 million in 2022, primarily because we refined our manufacturing technologies, which resulted in the advanced quality and pureness of our other fine chemical products. As we gradually gained increased market shares, we adopted a pricing strategy to sell our products with a relatively higher gross profit margin to enhance our profitability.

Products trading. Our gross profit for products trading increased significantly from RMB3.6 million in 2021 to RMB37.9 million in 2022, and the gross profit margin increased significantly from 0.6% to 9.2% in the corresponding years, primarily due to the increase in average sales price of our traded products. Petroleum toluene is our major trading products, and according to Frost & Sullivan Report, the market price of toluene increased significantly from approximately RMB5,628 per ton in 2021 to RMB7,410 per ton in 2022. Benefited from our long-standing relationship with the suppliers, large-scale purchase amount and in-depth market understanding, we profited from toluene product trading by selling the surplus toluene that we purchased at a relatively lower price compared to the prevailing market price at which we sold them. As a result, our gross profit margin increased in 2022.

- *Toluene product trading*. We recorded gross profit of RMB24.9 million for our toluene product trading in 2022 as compared to a gross loss of RMB2.7 million in 2021 and the gross profit margin also increased to 6.9%, primarily because the market price of toluene increased in the first half of year 2022 from approximately RMB5,852 per ton to RMB8,672 per ton as toluene is a chemical raw material that primarily derived from petroleum, the increasing market price of brent crude oil in first half of 2022, caused by macro-environment of global policies and economy, has led to the upward trend of the price of toluene, and we capture this market trend and resold our in-stock petroleum toluene at a relatively higher price compared to our purchase price. We incurred a gross loss and a negative gross profit margin for toluene product trading in 2021 due to the fluctuation of market price for toluene products that year which caused us to sell toluene at a price lower than our purchase price. As the price of toluene stabilized and experienced an upward trend in 2022, we were able to generate a profit.

- *Other products trading*. Gross profit of other products trading increased by 105.5% from RMB6.3 million in 2021 to RMB13.0 million in 2022, and the gross profit margin increased from 18.1% to 25.2% in the corresponding years, primarily due to the increase in average sales price of certain other trading products in 2022, such as p-tolualdehyde, and new trade products, such as benzoyl chloride and potassium diformate, with relatively higher gross profit.

Other Income and Gains

Our other income and gains decreased by 13.5% from RMB39.9 million in 2021 to RMB34.5 million in 2022 as a result of the decrease in interest income from RMB19.3 million in 2021 to RMB5.6 million in 2022 due to the settlement of loans to related party, and partially offset by the increase in government grants from RMB7.1 million to RMB17.0 million in the corresponding years.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 21.1% from RMB19.8 million in 2021 to RMB24.0 million in 2022, primarily due to the increase in staff salaries as well as the engagement and use of third-party information platforms to enhance our knowledge of the export market to support our overseas business expansions.

Research and Development Expenses

Our research and development expenses increased by 20.0% from RMB110.8 million in 2021 to RMB133.0 million in 2022, primarily due to the increase in staff costs for our research and development employees and articles of consumption.

Administrative Expenses

Our administrative expenses increased by 16.0% from RMB100.5 million in 2021 to RMB116.5 million in 2022, primarily due to the increase in (i) tax and surcharges as a result of our increased revenue; and (ii) general management expenses resulted from our increased property management fees and staff costs in 2022. The incurrence of more listing expenses also contributed to the increase in administrative expenses.

Other Expenses

Our other expenses decreased by 76.4% from RMB22.8 million in 2021 to RMB5.4 million in 2022, primarily due to the decrease in loss from disposal of fixed asset and equipment, and the absence of foreign exchange losses in 2022.

Finance Costs

Our finance costs decreased by 8.9% from RMB34.1 million in 2021 to RMB31.0 million in 2022 due to the decrease in interest on bank and other borrowings because we utilized bank loans with relatively lower interest rate, and partially offset by the increase in interest on lease liabilities due to the increase in leased properties for our office and research and development purposes. For details, please refer to "— Indebtedness — Interest-Bearing Bank and Other Borrowings" in this section.

Income Tax Expense

Our income tax expenses increased by 3.3% from RMB84.4 million in 2021 to RMB87.2 million in 2022, and our effective tax rate decreased from 21.4% in 2021 to 20.4% in 2022. The increase in income tax expense was primarily the result of the increased revenue and taxable profit.

Profit for the Year

As the result of the foregoing reasons, our profit for the year increased by 10.1% from RMB309.1 million in 2021 to RMB340.5 million in 2022.

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as at the dates indicated, which have been extracted from the Accountants' Report included in Appendix I to this Prospectus:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Total non-current assets	1,182,574	1,292,451	1,283,308
Total current assets	1,753,796	864,887	832,574
Total assets	**2,936,370**	**2,157,338**	**2,115,882**
Total current liabilities	1,228,303	1,218,688	1,422,654
Net current assets/(liabilities)	525,493	(353,801)	(590,080)
Total assets less current liabilities	1,708,067	938,650	693,228
Total non-current liabilities	187,749	212,543	163,611
Total liabilities	1,416,052	1,431,231	1,586,265
Net assets	**1,520,318**	**726,107**	**529,617**
Share capital	339	48	48
Reserves	1,519,979	726,059	529,569
Total equity	**1,520,318**	**726,107**	**529,617**

NET CURRENT ASSETS/LIABILITIES

The following table sets forth our current assets and current liabilities as at the dates indicated:

	As at December 31,			As at April 30,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets				
Inventories	305,621	320,481	285,333	327,109
Trade and bills receivables	234,358	326,979	296,314	382,621
Prepayments, deposits and other receivables	1,094,852	69,301	145,367	138,996
Pledged deposits	49,504	64,675	40,127	59,001
Cash and cash equivalents	69,461	83,451	65,433	123,653
Total current assets	**1,753,796**	**864,887**	**832,574**	**1,031,380**
Current liabilities				
Trade and bills payables	196,250	171,228	149,705	257,765
Other payables and accruals	263,173	362,086	372,971	391,594
Interest-bearing bank and other borrowings	716,107	662,300	852,020	1,027,520
Lease liabilities	7,262	16,308	15,850	13,332
Income tax payable	45,511	6,766	32,108	698
Total current liabilities	**1,228,303**	**1,218,688**	**1,422,654**	**1,690,909**
Net current assets/(liabilities)	**525,493**	**(353,801)**	**(590,080)**	**(659,529)**

We recorded net current assets of RMB525.5 million as at December 31, 2021. Our net current assets in 2021 was primarily in line with our business expansion, which led to the continued increase in revenue and profitable operations. Our net current assets in 2021 were partially offset by increase in interest-bearing bank loans and other borrowings as a result of borrowings incurred in the ordinary course of our business operations and the expansion of our production plants.

We recorded net current liabilities of RMB353.8 million, RMB590.1 million and RMB659.5 million as at December 31, 2022 and 2023 and April 30, 2024, respectively. Our net current liabilities as at December 31, 2022 and 2023 and April 30, 2024 was primarily due to the dividend of RMB1,102.8 million and RMB270.0 million declared in 2022 and 2023, respectively, to our shareholders, and was partially offset by the profit recognised during the corresponding periods.

Our Board of Directors has the absolute discretion to decide whether to declare or distribute dividends at a particular point in time. Any payment proposal and dividend distribution in the future will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant.

We incurred net current liabilities as at December 31, 2022 due to the distribution of the February 2022 Dividend and the December 2022 Dividend (together, the "**2022 Dividend**"). The 2022 Dividend was a one-time event to settle our Group's historical receivables due from our related parties, Linuo Group and Linuo Investment, which constituted a significant portion of our receivables due from third parties. As a result of the 2022 Dividend distribution, the amounts due from Linuo Investment and the Linuo Group decreased substantially and we recorded net current liabilities of RMB353.8 million as at December 31, 2022. Our net current liabilities further increased to RMB590.1 million as at December 31, 2023 due to the distribution of dividend of RMB270.0 million. During the Track Record Period, we recorded net profit of RMB309.1 million, RMB340.5 million, and RMB72.9 million for the year ended December 31, 2021, 2022 and 2023, respectively. Overall, our continuous profitable operations provide the foundation to our Group's financial soundness and liquidity. In addition, we closely monitor our cash flow and plan to make continuous efforts to improve our financial positions, including (i) adopt various strategies and measures including enhance our production capacity and market share to continuously maintain and improve our revenue growth and profitability; (ii) maintain our sound relationships with banks and other financial institutions to obtain financial facilities to support our business operations as required. As of the Latest Practicable Date, we had unutilized banking facilities of RMB555.4 million; (iii) strictly follow our receivable collection rules and standards to ensure our cash flow and liquidity; and (iv) adjust our financing structure to replace short-term bank loans with long-term bank loans.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. The table below sets forth our inventory balances as at the dates indicated:

	As at December 31,					
	2021		2022		2023	
	RMB'000	*tons/units*	*RMB'000*	*tons/units*	*RMB'000*	*tons/units*
Raw materials (measured in tons)[1]	135,671	23,640	129,633	20,374	104,487	16,737
Raw materials (measured in units)[2]	5,690	1,038,149	5,617	825,848	5,333	777,224
Work in progress (measured in tons)	11,148	2,413	13,827	2,703	13,269	2,391
Finished goods (measured in tons)	153,112	17,133	171,404	18,513	164,008	17,945
	305,621		320,481		287,097	
Impairment	–	–	–	–	(1,764)	–
Total	**305,621**		**320,481**		**285,333**	

Notes:

(1) mainly includes raw materials used for production, such as petroleum toluene and other chemical materials.

(2) mainly includes packaging materials.

Our inventory balance (net of impairment) increased from RMB305.6 million as at December 31, 2021 to RMB320.5 million as at December 31, 2022, primarily due to the increase in finished goods resulted from our expanded production of benzoic acid and sodium benzoate, and our increased inventory of benzonitrile and benzaldehyde for our production. Our inventory balance decreased to RMB285.3 million as at December 31, 2023, primarily due to our production and sales strategy in an effort to lower inventory amid a slow market. On the sales side, we lowered our sales price in order to increase inventory turnover. On the production side, we planned our production with greater synchronization with incoming orders and current inventory level. These strategies effectively reduced our inventory balance.

	Year ended December 31,		
	2021	2022	2023
Inventory turnover days*(note)*	36	47	47

Note: Inventory turnover days for a year is the arithmetic mean of the beginning and ending balances of inventory for the relevant year divided by cost of inventory sold for the relevant year and multiplied by 365 days.

For the years ended December 31, 2021, 2022 and 2023, our inventory turnover days were 36 days, 47 days and 47 days, respectively. Our inventory turnover days remained fairly stable during the Track Record Period as we actively manage our inventory balance.

The following table sets forth the ageing analysis of our inventories.

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 6 months	300,234	277,011	218,190
Over 6 months but within 12 months	4,580	38,822	35,259
Over 12 months	807	4,648	33,648
Total	305,621	320,481	287,097

As of the Latest Practicable Date, RMB240.3 million or 83.7% of the RMB287.1 million inventories (before impairment) as of December 31, 2023 were subsequently utilized or sold.

Trade and Bills Receivables

Our trade and bills receivables consist of trade receivables and bills receivable balances due from our customers. Our trading terms with our existing customers are mainly on credit while we normally require new customers to make payments in advance. The credit period we grant to our established customers generally ranges from one to four months. Each customer has a particular and maximum credit limit based on our business history with this customer. We seek to maintain strict control over our outstanding receivables and has a credit control pre-alert mechanism to minimize credit risk. Under our credit control mechanism, our accounting and finance team conduct monthly reviews and sort out the outstanding receivables with relatively short credit period, and then our accounting and finance team informs the respective sales team member and the sales managers of the billing status in writing. Overdue balances are reviewed regularly by senior management. In view of the measures we have implemented and that our trade and bills receivables are associated with a large number of diversified customers, the expected credit loss is minimal. Our trade and bills receivables are non-interest-bearing.

The table below sets forth our trade and bills receivables as at the dates indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	99,655	143,218	97,211
Bills receivables	135,201	184,573	199,727
	234,856	327,791	296,938
Impairment	(498)	(812)	(624)
Total	**234,358**	**326,979**	**296,314**

Our trade and bills receivables (net of impairment) increased from RMB234.4 million as at December 31, 2021 to RMB327.0 million as at December 31, 2022, which were primarily due to the increases in bill receivables collected over the corresponding years. It decreased to RMB296.3 million as at December 31, 2023 due to our collection efforts and the decrease in sales volume. In particular, our bills receivables increased from RMB135.2 million in 2021 to RMB184.6 million in 2022 primarily due to our increase in sales volume in 2022. Our bills receivables further increased to RMB199.7 million in 2023 despite a decrease in sales volume due to our customers' increased use of bills as their payment method as a result of our customers' need to maintain short-term liquidity in an overall challenging market environment. Our trade receivables due from our associates accounted for nil, RMB5.2 million and RMB1.3 million as at December 31, 2021, 2022 and 2023, representing nil, 1.6% and 0.4% of our total trade and bills receivables as at the same dates, respectively.

As of the Latest Practicable Date, RMB268.0 million or 90.3% of the RMB296.9 million trade and bills receivables balance (before impairment) as of December 31, 2023 were subsequently settled.

The table below sets forth our trade and bills receivables turnover days for the periods indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
Trade and bills receivables turnover days*(note)*	24	33	42

Note: Trade and bills receivables turnover days for a year equals the arithmetic mean of the beginning and ending trade and bills receivable balances (before impairment) divided by revenue for that year and multiplied by 365 days.

For the years ended December 31, 2021, 2022 and 2023, our average trade and bills receivables turnover days were 24 days, 33 days and increased to 42 days, respectively. Our trade and bill receivables turnover days increased to 42 days in 2023 due to our customers' preference to use bills, which have a longer payment term, in order to maintain their short term cash liquidity. Our trade and bills receivables turnover days remained stable during the Track Record Period as we effectively managed our receivables and credit periods extended to customers with appropriate internal management system. We will continue to devote sufficient attention and efforts to collect payments and monitor our trade and bills receivable turnover days.

The table below sets forth an aging analysis based on the invoice date and net of loss allowance of our trade receivables as at the dates indicated:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 4 months	98,865	123,601	95,913
Over 4 months but within 6 months	65	17,612	–
Over 6 months but within 12 months	227	1,193	674
Total	99,157	142,406	96,587

The table below sets forth the maturity date analysis for bills receivables as at the dates indicated:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	76,999	112,436	80,859
Over 3 months but within 6 months	47,072	68,658	118,868
Over 6 months but within 12 months	11,130	3,479	–
Total	135,201	184,573	199,727

Our bill receivables matured in over 3 months but within 6 months increased significantly in 2023 due to our customers' increased use of bills as their payment method as a result of our customers' need to maintain short-term liquidity in an overall challenging market environment. We will continue to increase our efforts to collect these payments to avoid prolonging these payments. Based on the systems and policies we have in place, we believe that the collection of trade and bills receivables aged six months or older is not a material risk to our business and results of operations. We expect to collect these trade and bills receivables in the ordinary course of business at a rate that is largely in line with our historical performance. Generally, the credit periods we extend to our customers for trade receivables does not exceed 120 days. Based on our historical performance and collection history of trade and bill receivables, we believe that there is no recoverability issue for the trade and bills receivables as at December 31, 2023. We also believe that sufficient provision has been made according to the assessment of credit of our customers at the end of each reporting period.

Current Prepayments, Deposits and Other Receivables

Our current prepayments, deposits and other receivables consist of deposits and other receivables, prepayments, deductible input VAT and loans to directors. Deposits and other receivables primarily include loans to related parties. Prepayments primarily include our prepayments for raw materials. Deductible input VAT represents our non-deducted input value-added tax. The table below sets forth our prepayments, deposits and other receivables as at the dates indicated.

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from related parties	1,008,171	13,255	59,414
– Linuo Investment (trade in nature)	7,309	4,800	–
– Hebei Kangshi (trade in nature)	–	5,000	3,000
– Xinkang Chemical (trade in nature)	–	–	10,326
– Linuo Group (non-trade in nature)	562,480	5	–
– Linuo Investment (non-trade in nature)	435,134	–	–
– Hebei Kangshi (non-trade in nature)	–	–	44,734
– others (non-trade in nature)	3,248	3,450	1,345
Deposits and other receivables	10,640	9,293	13,644
Prepayments	62,118	27,701	29,311
Deductible input VAT	13,234	12,811	31,711
Prepaid income tax	–	5,692	438
Investment in a fund	–	–	10,500
Loans to directors (non-trade in nature)	689	549	349
Total	**1,094,852**	**69,301**	**145,367**

Our current prepayments, deposits and other receivables decreased significantly from RMB1,094.9 million as at December 31, 2021 to RMB69.3 million as at December 31, 2022, primarily due to significant decrease in receivables from Linuo Group and Linuo Investment. Our current prepayments, deposits and other receivables increased to RMB145.4 million as at December 31, 2023, primarily due to the increase in loans to Hebei Kangshi, increase in deductible input VAT and a payment we are entitled to from the dissolution of an investment we made in an investment fund.

The decrease of our amounts due from related parties from RMB1,008.1 million as of December 31, 2021, to RMB13.3 million as at December 31, 2022 as a result of dividends of RMB1,013.0 million and RMB89.8 million we declared in February 2022 and December 2022, respectively. Among the dividends of RMB1,102.8 million in aggregate, RMB886.0 million in aggregate was used to offset our Group's receivables due from Linuo Group and Linuo Investment. For details, please refer to "— Dividend" in this section. As at December 31, 2023, amounts due from related parties of RMB59.4 million mainly represents loans to Hebei Kangshi of RMB44.7 million which is non-trade in nature.

As of the Latest Practicable Date, RMB102.6 million or 70.6% of the RMB145.4 million in prepayments, deposits and other receivables as of December 31, 2023 were subsequently settled. The non-trade outstanding amounts due from related parties and loans to directors will be settled prior to the Listing.

Cash and Cash Equivalents and Pledged Deposits

Our cash and cash equivalents refer to cash and bank balances deducting pledged deposits. Our pledged deposits primarily include pledged time deposits for bills payable and letter of credit. The table below sets forth our cash and cash equivalents and pledged deposits as at the dates indicated.

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	118,965	148,126	105,560
Less: Pledged time deposits:	49,504	64,675	40,127
– Pledged for bills payable	39,433	10,000	–
– Pledged for letter of credit	10,071	50,174	40,127
– Others	–	4,501	–
Total	**69,461**	**83,451**	**65,433**

Our pledged time deposits increased from RMB49.5 million as at December 31, 2021 to RMB64.7 million as at December 31, 2022, primarily due to the increase in pledged time deposits for letter of credit, and partially offset by the decrease in pledged time deposits for bills payable. Our pledged time deposits decreased from RMB64.7 million as at December 31, 2022 to RMB40.1 million as at December 31, 2023 due to the decrease in pledged time deposits for bills payables and letter of credit.

Trade and Bills Payables

Our trade and bills payables mainly consist of payment obligations related to the purchase of raw materials and packaging materials. In addition to trade payables, we also use bank acceptance bills, which are promised future payments by a bank, to facilitate the payment of the amounts due to our creditors.

The trade payables are non-interest bearing and are normally settled within 30 days. The table below sets forth our trade and bills payables as at the dates indicated:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	125,250	161,228	149,705
Bills payable	71,000	10,000	–
Total	**196,250**	**171,228**	**149,705**

Trade and bills payables decreased from RMB196.3 million as at December 31, 2021 to RMB171.2 million as at December 31, 2022, primarily due to the maturity of bills payable to our suppliers. Our trade and bills payables further decreased to RMB149.7 million as at December 31, 2023, primarily due to the decrease in the amount of raw materials purchased.

The table below sets forth our average trade and bills payables turnover days for the years indicated:

	Year ended December 31,		
	2021	2022	2023
Trade and bills payables turnover days*(note)*	27	28	25

Note: Trade and bills payable turnover days for a year equals the arithmetic mean of the beginning and ending trade and bills payable balances divided by cost of sales for that year and multiplied by 365 days.

For the years ended December 31, 2021, 2022 and 2023, our average trade and bills payables turnover days were 27 days, 28 days and 25 days, respectively. Our trade and bills payables turnover days remain relatively stable during the Track Record Period.

The following table sets forth the aging analysis based on the posting date of our trade payables as at the dates indicated:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	123,829	156,772	149,444
1 year to 2 years	668	4,170	152
Over 2 years	753	286	109
Total	125,250	161,228	149,705

The following table sets forth the maturity date analysis of our bills payables as at the dates indicated:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	10,000	–
3 months to 6 months	25,000	–	–
6 months to 12 months	46,000	–	–
Total	71,000	10,000	–

As of the Latest Practicable Date, RMB140.0 million or 93.5% of the RMB149.7 million trade and bills payables as of December 31, 2023 were subsequently settled. Our Directors confirm that we had no material defaults in our trade and bills and other payables during the Track Record Period and up to the Latest Practicable Date.

Other Payables and Accruals

Our other payables and accruals include other tax payable, contract liabilities, other payables and payroll payables. Contract liabilities include short-term advances received to deliver our products. Other payables are non-interest-bearing, and mainly comprise of construction fees, transportation fees and spare parts fees. The table below sets forth our other payables and accruals as at the dates indicated:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Deferred output VAT	7,110	6,235	6,049
Contract liabilities	64,322	42,919	50,596
Amounts due to related parties	2,213	6,614	5,825
– included in other payables (trade in nature)	2,213	6,607	5,825
– included in other payables (non-trade in nature)	–	7	–
Other payables and accruals	159,880	159,248	160,878
– construction fees	55,880	53,144	61,315
– transportation expenses	46,546	50,414	49,383
– spare parts fees	27,250	23,372	17,881
– energies	5,724	10,252	6,185
– deposits and others	24,480	22,066	26,114
Accrued wages and salaries	24,704	27,022	19,990
Dividend payable	–	113,170	127,077
Other tax payable	4,944	6,878	2,556
Total	**263,173**	**362,086**	**372,971**

Our other payables and accruals increased from RMB263.2 million as at December 31, 2021 to RMB362.1 million as at December 31, 2022, primarily due to dividend payable of RMB113.2 million as at December 31, 2022. Other payables and accruals remained fairly stable at RMB373.0 million as at December 31, 2023. As of the Latest Practicable Date, RMB49.4 million or 97.5% of the RMB50.6 million in contract liabilities as of December 31, 2023 were subsequently recognized as revenue.

Our construction fees among other payables decreased from RMB55.9 million as at December 31, 2021 to RMB53.1 million as at December 31, 2022 due to the settlement of construction fees. The construction fees increased to RMB61.3 million as at December 31, 2023 due to the implementation of our production plant expansion. Our transportation expenses payable increased from RMB46.5 million as at December 31, 2021 to RMB50.4 million as at December 31, 2022 because of the increased use of bills for payment of our transportation fees, some of which were to be derecognized only upon maturity. Our transportation fee payable remained fairly stable at RMB49.4 million as at December 31, 2023. Overall, our other payables and accruals were generally stable during the Track Record Period as result of our consistent operations with slight variations due to changes in market costs for services, production volume and other market factors.

Except for dividends payable to the out-of-contact shareholders, the balance for dividend payables has been settled as of the Latest Practicable Date. For the out-of-contact shareholders, we are undertaking continuous effort to contact these shareholders through news publication of the dividend payment, contacting these shareholders through their last known contact information, actively monitoring and responding to the municipal hotline and Wuhan Youji Employee Trust consultation hotline and encouraging word-of-the-mouth dissemination of this dividend payment by employees. We will make payment with internal resources to these shareholders in due course once they establish contact.

INDEBTEDNESS

Indebtedness Statement

The table below sets forth details of our indebtedness which includes (i) interest-bearing bank and other borrowings; and (ii) lease liabilities.

	As at December 31,			As at April 30,
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Interest-bearing bank and other borrowings	**716,107**	**734,300**	**917,520**	**1,027,520**
Bank loans repayable:				
– within one year	581,527	557,000	812,020	978,520
– After one year but within two years	–	30,000	65,500	–
– After two years but within five years	–	42,000	–	–
Other borrowings repayable:				
– within one year	134,580	105,300	40,000	49,000
Lease liabilities	**30,353**	**46,835**	**27,590**	**24,610**
Lease liabilities				
– current portion	7,262	16,308	15,850	13,332
– non-current portion	23,091	30,527	11,740	11,278
Total	**746,460**	**781,135**	**945,110**	**1,052,130**

Our Directors confirm that as of the Latest Practicable Date, the loan and borrowing agreements did not contain any covenant that would have a material adverse effect on our ability to make additional borrowings, issue debt or equity securities in the future. Our Directors further confirm that we had no material defaults in bank and other borrowings, nor did we breach any covenants (that were not waived) during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties in obtaining credit facilities, or withdrawal of facilities, or receive requests for early repayment by banks and other institutions.

Save as disclosed under sections headed "— Indebtedness", we did not have any outstanding loan, capital issued or agreed to be issued, debt securities, mortgages, charges, debentures, bank overdrafts, loans, unutilized banking facilities or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase commitments or other contingent liabilities as of December 31, 2023.

Our Directors confirm that there is no material change to our Company's indebtedness since the Latest Practicable Date and up to the date of the Prospectus.

Interest-Bearing Bank and Other Borrowings

Our interest-bearing bank and other borrowings were primarily borrowings to fund our operations in the ordinary course of business. The following table sets forth our interest-bearing bank and other borrowings as of the dates indicated.

	As at December 31,			As at April 30,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bank loans repayable:				
– within one year	581,527	557,000	812,020	978,520
– After one year but within two years	–	30,000	65,500	–
– After two years but within five years	–	42,000	–	–
Other borrowings repayable:				
– within one year	134,580	105,300	40,000	49,000
Total	**716,107**	**734,300**	**917,520**	**1,027,520**

During the Track Record Period, interest-bearing bank and other borrowings were all denominated in RMB. Our bank loans of RMB556.6 million of our total bank loans as at December 31, 2021, were guaranteed by entities controlled by a close family member of our controlling shareholder. Certain other borrowings with carrying amounts of RMB25.0 million as at December 31, 2021, were guaranteed by Linuo Group, an entity controlled by a close family member of our controlling shareholder. These guarantees were subsequently released as of August 2022. As at December 31, 2023, none of our bank and other borrowings were guaranteed by related parties.

The increase of our interest-bearing bank and other borrowings from RMB716.1 million as at December 31, 2021, to RMB734.3 million, RMB917.5 million and RMB1,027.5 million as at December 31, 2022 and 2023 and April 30, 2024, respectively. The increases were primarily due to additional loans financing for our daily business operation as well as for the expansion of our production capacity. Our bank and other loans repayable within one year as at April 30, 2024 was RMB1,027.5 million, incurred in the regular course of our business operations and for the expansion of our production capacity. We expect to roll-forward or repay these loans on schedule using the cashflows we generate from our business operations and additional debt financing, if necessary. In particular, we maintain a revolving credit account with a number of large commercial banks in the amount of RMB1.5 billion in aggregate including both short term and long term credits. Therefore, we do not foresee any difficulties in repaying these loans as and when required. As of the Latest Practicable Date, we had unutilized banking facilities of RMB555.4 million.

Lease Liabilities

As at December 31, 2021, 2022 and 2023, our aggregated unpaid contractual lease payments (calculated by the present value of lease payments to be made over the lease term, including fixed payments) were RMB30.4 million, RMB46.8 million and RMB27.6 million in relation to the corresponding current and non-current lease liabilities. The table below sets forth the lease liabilities as of the dates indicated:

	As at December 31,			As at April 30,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Lease liabilities				
– current portion	7,262	16,308	15,850	13,332
– non-current portion	23,091	30,527	11,740	11,278
Total	**30,353**	**46,835**	**27,590**	**24,610**

KEY FINANCIAL RATIOS

The following tables set forth certain of our key financial ratios as of the dates and for the periods indicated.

	Year ended December 31,		
	2021	**2022**	**2023**
Gross profit margin(1)	22.9%	22.3%	12.3%
Net profit margin(2)	11.1%	10.9%	2.7%
Return on equity(3)	20.3%	46.9%	13.8%
Return on assets(4)	10.5%	15.8%	3.4%

	As at December 31,		
	2021	**2022**	**2023**
Current Ratio(5)	1.4	0.7	0.6
Gearing Ratio(6)	41.3%	87.2%	158.5%

Notes:

(1) Gross profit margin equals gross profit divided by revenue for the periods.

(2) Net profit margin equals net profit for the periods divided by revenue for the periods.

(3) Return on equity equals net profit for the periods divided by total equity as at end of the periods.

(4) Return on assets equals net profit for the periods divided by total assets as at end of the periods.

(5) Current ratio equals current assets divided by current liabilities as of the end of the periods.

(6) Gearing ratio equals net debt divided by total equity as at end of the periods.

Gross profit margin

For discussion about fluctuations of our gross profit margin during the Track Record Period, please refer to "— Discussion of Results of Operations" in this section.

Net profit margin

Our net profit margin decreased from 11.1% in 2021 to 10.9% in 2022 primarily because of the slight decrease in gross profit margin from 22.9% in 2021 to 22.3% in 2022. Our net profit margin further decreased to 2.7% due to the decrease in gross profit margin from 22.3% in 2022 to 12.3% in 2023.

Return on Equity

Our return on equity increased from 20.3% in 2021 to 46.9% in 2022 because of our increase in net profit and the dividends declared in 2022 of RMB1,102.8 million in aggregate. Our return on equity was 13.8% for 2023, mainly attributable to the decrease in net profit for the year.

Return on Assets

Our return on assets increased from 10.5% in 2021 to 15.8% in 2022 because of the dividends declared in 2022 of RMB1,102.8 million in aggregate. Our return on assets decreased to 3.4% in 2023 primarily due to the decrease in net profit.

Current ratio

Our current ratio decreased from 1.4 as at December 31, 2021 to 0.7 as at December 31, 2022, primarily due to the dividends declared in 2022 of RMB1,102.8 million in aggregate. Our current ratio decreased slightly to 0.6 as at December 31, 2023 primarily due to the dividends declared in 2023 of RMB270.0 million. For details, please refer to "— Net Current Assets/Liabilities" in this section.

Gearing ratio

Our gearing ratio increased from 41.3% as at December 31, 2021 to 87.2% as at December 31, 2022, primarily due to a decrease in equity resulted from the dividend of RMB1,013.0 million and RMB89.8 million declared to shareholders in February and December 2022, respectively. Our gearing ratio increased to 158.5% due to the utilization of additional debt to finance our operations and expansion of production capacity. For details, please refer to "— Net Current Assets/Liabilities" in this section.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded our working capital and other capital expenditure requirements through a combination of income generated from our business operations and bank loans obtained. The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Cash generated from operations before working capital changes	522,869	564,398	262,151
Changes in working capital	(380,227)	(220,661)	(90,023)
Income taxes paid	(18,409)	(195,375)	(11,599)
Net cash flows from operating activities	124,233	148,362	160,529
Net cash flows (used in)/from investing activities	(236,724)	53,904	(79,831)
Net cash flows from/(used in) financing activities	139,713	(188,969)	(98,905)
Net increase/(decrease) in cash and cash equivalents	27,222	13,297	(18,207)
Cash and cash equivalents at beginning of year	42,354	69,461	83,451
Effect of foreign exchange rate changes	(115)	693	189
Cash and cash equivalents at end of year	**69,461**	**83,451**	**65,433**

Net Cash Flows from Operating Activities

For the year ended December 31, 2023, our net cash flows from operating activities of RMB160.5 million reflect our profit before tax of RMB94.7 million, as positively adjusted primarily by (i) a decrease in inventories of RMB33.4 million, and (ii) depreciation of property, plant and equipment of RMB111.2 million, and was partially offset by negative adjustment due to the increase in trade and bills receivables of RMB91.0 million.

For the year ended December 31, 2022, our net cash flows from operating activities of RMB148.4 million reflect our profit before tax of RMB427.7 million, as negatively adjusted primarily by (i) an increase in trade and bills receivables of RMB205.1 million; (ii) income tax paid of RMB195.4 million and positively adjusted by depreciation of plant and equipment of RMB99.1 million.

For the year ended December 31, 2021, our net cash flows from operating activities of RMB124.2 million reflect our profit before tax of RMB393.5 million, as negatively adjusted primarily by (i) an increase in inventories of RMB189.5 million, (ii) an increase in trade and bills receivables of RMB264.3 million, and positively adjusted by depreciation of plant and equipment of RMB93.7 million.

Net Cash Flows from/(Used in) Investing Activities

For the year ended December 31, 2023, our net cash flows used in investing activities were RMB79.8 million, primarily attributed to (i) loans to a joint-venture of RMB51.0 million, (ii) purchases of items of property, plant and equipment of RMB34.3 million, and (iii) a fund investment of RMB10.5 million devoted to investment opportunities in the industrial and chemical sectors, and was partially offset by dividends received from associates of RMB13.5 million.

For the year ended December 31, 2022, our net cash flows from investing activities were RMB53.9 million, primarily attributed to amounts received from loans to related parties of RMB171.5 million, and partially offset by purchases of items of property, plant and equipment of RMB61.6 million for operation of our production facilities, prepayment for leasehold land of RMB21.4 million and loans to related parties of RMB53.8 million.

For the year ended December 31, 2021, our net cash flows used in investing activities was RMB236.7 million, primarily attributed to purchases of items of property, plant and equipment of RMB51.3 million for operation of our production facilities, additions to right-of-use assets of RMB51.3 million and loans to related parties of RMB433.1 million, and partially offset by amounts received from loans to related parties of RMB286.5 million.

Net Cash Flows from/(Used in) Financing Activities

For the year ended December 31, 2023, we had RMB98.9 million of net cash flows used in financing activities, primarily attributed to the repayment of bank loans and other borrowings of RMB805.8 million and dividends paid of RMB256.1 million, and was partially offset by the proceeds from interest-bearing bank loan and other borrowings of RMB989.0 million.

For the year ended December 31, 2022, we had RMB189.0 million of net cash flows used in financing activities, primarily attributed to repayment of bank loans and other borrowings of RMB832.0 million, dividends payment of RMB103.7 million and payment for the share repurchase of RMB36.6 million, and partially offset by proceeds from interest-bearing bank loan and other borrowings of RMB850.1 million.

For the year ended December 31, 2021, we had RMB139.7 million of net cash flows from financing activities, primarily attributed to proceeds from interest-bearing bank loan and other borrowings of RMB937.8 million to fund the day-to-day operation of our business, and partially offset by the repayment of bank loans and other borrowings of RMB780.1 million from revenues generated from our operations.

Working Capital Confirmation

The Directors are of the opinion that, after due and careful inquiry and taking into account the following financial resources available to us described below, we have sufficient working capital to cover our operating costs for at least the next 12 months from the date of this prospectus considering our:

- future operating cash flows;
- cash and cash equivalents;
- the available facilities maintained with financial institutions; and
- estimated net proceeds from the Global Offering.

CAPITAL EXPENDITURES

Over the Track Record Period, principal capital expenditures related primarily to the purchase of equipment and the establishment of an automatic laboratory. The following table sets forth our capital expenditures for the periods indicated.

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of property, plant and equipment	153,026	164,118	163,622
Purchase of intangible assets	–	123	1,461
Purchase of leasehold land	51,258	12,563	21,996
Total	**204,284**	**176,804**	**187,079**

We expect to fund our future capital expenditures through cash generated from our business operations, various financing alternatives and the net proceeds from the Global Offering. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, results of operations and financial condition, our business plans, market conditions and various other factors. For details, please also refer to "Future Plans and Use of Proceeds – Use of Proceeds" in this section.

CONTINGENT LIABILITIES

During the Track Record Period and up to the Latest Practicable Date, we had no significant contingent liabilities.

CONTRACTUAL OBLIGATIONS

Capital Commitments

A summary of our capital commitments as at December 31, 2021, 2022 and 2023 are set forth in the following table:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Plant and machinery	17,730	60,623	42,700
Total	**17,730**	**60,623**	**42,700**

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we do not have any off-balance sheet transactions.

RELATED PARTY TRANSACTIONS AND BALANCES

Historically, we have entered into transactions with related parties by means of purchases of goods or service, purchases of machinery, sales of goods or render of service, loans, borrowings, and repayments of borrowings. The tables below set forth the amounts due from and due to our related parties over the Track Record Period. For more details of our historical transactions with related parties, please refer to "Appendix I — Accountants' Report — II Notes to the Historical Financial Information — 36. Related Party Transactions" in this prospectus.

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Due from related parties			
Included in prepayments, deposits and other receivables (non-trade in nature)	1,001,551	4,004	46,437
Included in trade receivables (trade in nature)	3,011	5,893	1,261
Included in prepayments, deposits and other receivables (trade in nature)	7,309	9,800	13,326
Total amounts due from related parties	**1,011,871**	**19,697**	**61,024**
Due to related parties			
Included in other payables and accruals (non-trade in nature)	–	7	–
Included in other borrowings	20,000	–	–
Included in other payables and accruals (trade in nature)	2,213	6,607	5,825
Included in contract liabilities (trade in nature)	7	16	2
Included in trade payable (trade in nature)	–	–	139
Total amounts due to related parties	**22,220**	**6,630**	**5,966**

Over the Track Record Period, we leased properties from Twin Tigers Coatings, an entity controlled by a close member of our controlling shareholder, from July 13, 2020 to July 12, 2025. The amount of rent payable under the lease agreements was approximately RMB171,000 per month. Right-of-use assets and lease liabilities were recognized at the commencement date of the leases.

We have also leased properties from Linuo Investment, an entity controlled by a close member of our controlling shareholder for a lease period from January 1, 2021 to December 31, 2021. The amount of rent payable under the lease agreements was approximately RMB200,000 per month. We have applied short-term lease recognition exemption to this lease. In 2022, our Group entered into three long-term lease agreements for the lease of buildings from Linuo Investment. The first lease agreement is for a three years' lease term from January 1, 2022 to December 31, 2024 at a monthly rental fee of RMB0.6 million. The second agreement is for a thirty-one months' lease term from June 1, 2022 to December 31, 2024 at a monthly rental fee of RMB50,000. The third agreement is for a five-year lease term from July 1, 2022 to June 30, 2027 at an annual rental fee of RMB3.0 million. The new lease agreements have been recognized as lease liabilities and right-of-use assets.

Amounts Due from Related Parties

The amounts due from related parties primarily consist of loans we provided to these related parties. As at December 31 2021, 2022 and 2023, we recorded amounts due from related parties of RMB1,011.9 million, RMB19.7 million and RMB61.0 million, respectively. The amounts due from related parties of RMB1,011.9 million as at December 31, 2021 consisted mainly of RMB562.5 million in amounts due from Linuo Group and RMB435.1 million from Linuo Investment for loans we provided to these parties. Both entities are controlled by close associate of our controlling shareholder. As at December 31, 2022, the amounts due from related parties decreased to RMB19.7 million because other receivables due from related parties (non-trade nature) reduced significantly to RMB4.0 million, primarily as a result of the settlement of other receivables due from Linuo Group and Linuo Investment. As at December 31, 2023, the amounts due from related parties increased to RMB61.0 million mainly due to the loans to Hebei Kangshi in the amount of RMB44.7 million.

Except for the other receivables due from (i) Linuo Investment in relation to prepaid operation management service, (ii) Hebei Kangshi in relation to prepayment for purchase and (iii) Xinkang Chemical in relation to our purchase of its equipment, all other receivables due from related parties are non-trade in nature and will be settled prior to the Listing.

Amounts Due to Related Parties

The amounts due to related parties consist of other payables, contract liabilities, trade payables and inter-company loans. As at December 31, 2021, 2022 and 2023, we recorded amounts due to related parties of RMB22.2 million, RMB6.6 million and RMB5.8 million, respectively. The amounts due to related parties of RMB22.2 million as at December 31, 2021 consisted of other borrowings of RMB20.0 million due to Yingcheng Wuhan Organic Material Co., Ltd. (應城市武瀚有機材料有限公司, the "**Yingcheng Wuhan Organic**"). The amount due to related parties decreased to RMB6.6 million as at December 31, 2022 as a result of the settlement of the other borrowing due to Yincheng Wuhan Organic, and partially offset by the increase of trade payables due to Xinkang Chemical. The amounts due to related parties remained stable at RMB6.0 million as at December 31, 2023.

The non-trade amounts due to related parties are expected to be settled prior to the Listing.

Our Directors confirm that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our result of operations or render our historical results not reflective of our future performance.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to a variety of market risks, mainly including foreign currency risk, credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign Currency Risk

The transactional foreign currency exposures arises from sales in currencies other than our functional currencies. Approximately 22.0%, 23.0% and 23.0% of our sales for the periods ended December 31, 2021, 2022 and 2023 were denominated in currencies other than the functional currencies of the operating units making the sale, respectively. For further details of the sensitivity at the end of the reporting period to a reasonably possible change in exchange rate, please refer to "Appendix I — Accountants' Report — II Notes to the Historical Financial Information — 39. Financial Risk Management Objectives and Policies — Foreign currency risk" in this prospectus.

Credit Risk

The carrying amounts of cash and cash equivalents, trade and bills receivables, prepayments, deposits and other receivables, and pledged deposits included in the statements of financial position represent our maximum exposure to credit risk in relation to our financial assets. As at December 31, 2021, 2022 and 2023, cash and cash equivalents and pledged deposits were deposited in established and credible banks without significant credit risk. The credit quality of our financial assets included in prepayments, deposits and other receivables is considered to be normal as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. For further details of our credit quality and maximum credit risk exposure, please refer to "Appendix I — Accountants' Report — II Notes to the Historical Financial Information — 39. Financial Risk Management Objectives and Policies — Credit risk" in this prospectus.

Liquidity Risk

The liquidity of our Group is primarily dependent on our ability to maintain adequate cash inflows from our profitable operations to meet payment obligations as they fall due and our ability to finance future capital expenditures. We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance the operations and mitigate the effects of fluctuations in cash flows. For the maturity profile of our financial liabilities as at the end of each of the Track Record Period, based on the contractual undiscounted payments, please refer to "Appendix I — Accountants' Report — II Notes to the Historical Financial Information — 39. Financial Risk Management Objectives and Policies — Liquidity Risk" in this prospectus.

DIVIDEND

Currently, we do not have a formal dividend policy or a fixed dividend distribution ratio. Any declaration and payment of dividends will be subject to our constitutional documents and the Companies Act. We will review our dividend policy from time to time.

On February 28, 2022, the directors of our Company passed a series of resolutions for the distribution of a total dividends of RMB1,013.0 million to our sole shareholder, Cougar International Growth Holding II Ltd. (the "**February 2022 Dividend**"). On the same date, the directors of Cougar International Growth Holding II Ltd. passed resolutions for the distribution of the entire February 2022 Dividend declared by our Company to its sole shareholder Cougar Holdings Limited. Cougar Holdings Limited's shareholders then passed resolutions for the distribution of the February 2022 Dividend to its shareholders including Mr. Gao, Mr. Shen, Linuo Investment, Wuhan Youji Employee Trust and Hubei Tuopu. On March 31, 2022, based on an agreement entered into by Cougar Holdings Limited, Mr. Gao, Mr. Shen, Linuo Investment, Linuo Group, Wuhan Youji Employee Trust and Wuhan Youji, the relevant parties agreed that the total dividends of RMB820.0 million entitled by Mr. Gao, Mr. Shen and Linuo Investment would be used to offset our Group's receivables due from Linuo Group and Linuo Investment as of March 31, 2022.

On December 28, 2022, the directors of our Company passed a series of resolutions for the dividend distribution in the amount of RMB89.8 million to its shareholders including Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Fullfaith Capital Limited, NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd. (the "**December 2022 Dividend**"). Based on an agreement entered into by the above shareholders, Mr. Gao, Mr. Shen, Linuo Investment, Linuo Group and Wuhan Youji on December 28, 2022, the relevant parties agreed that RMB65.9 million of the total December 2022 Dividend entitled by Vastocean Capital Limited and SYM Holdings Limited will be used to offset our Group's receivables due from Linuo Group and Linuo Investment as of December 31, 2022.

On December 31, 2023, the directors of our Company passed a series of resolutions for the dividend distribution in the amount of RMB270.0 million to its shareholders including Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Fullfaith Capital Limited, NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd. (the "**December 2023 Dividend**"). This dividend was distributed as a cash dividend.

Among the February 2022 Dividend, the December 2022 Dividend, and the December 2023 Dividend of RMB1,372.8 million in aggregate, (i) dividends of RMB886.0 million in aggregate was used to offset our Group's receivables due from Linuo Group and Linuo Investment; (ii) dividends of RMB353.7 million in aggregate was paid in cash to shareholders other than the Wuhan Youji Employee Trust as of the Latest Practicable Date; and (iii) dividends of RMB133.1 million were distributed to the Wuhan Youji Employee Trust, including (a) dividends of RMB21.4 million attributable to 632 contactable shareholders which were fully settled as of the Latest Practicable Date and (b) the remaining dividends attributable to 4,713 shareholders that could not be contacted as of the Latest Practicable Date. We are undertaking continuous effort to contact these shareholders through news publication of the dividend payment, contacting these shareholders through their last known contact information, actively monitoring and responding to the municipal hotline and Wuhan Youji Employee Trust consultation hotline and encourage word-of-the-mouth dissemination of this dividend payment by employees.

Our Board of Directors has the absolute discretion to decide whether to declare or distribute dividends in any particular point in time. We will implement our dividend policies in the future based on multi-factors including the business operation and financial position of our Group. Subject to the Cayman Islands law and the Articles and Memorandum, the proposal of payment and the amount of our dividends in the future will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Under Cayman Islands law, dividends may be paid out of profit or, if the Articles allow for it, out of share premium account of the Company provided relevant laws are complied with.

LISTING EXPENSES

The total listing expenses of our Company are estimated to be approximately HK$74.8 million (or approximately RMB67.9 million) assuming the Over-allotment Option is not exercised and based on an Offer Price of HK$7.0 (being the mid-point of our Offer Price range of HK$5.5 to HK$8.5 per Offer Share), representing 58.4% of the gross proceeds from the Global Offering. These listing expenses are mainly comprised of underwriting-related expenses of approximately HK$14.9 million (or approximately RMB13.5 million), and non-underwriting related expenses of approximately HK$59.9 million (or approximately RMB54.4 million), which are comprised of (i) accountant and legal adviser fees and expenses of approximately HK$37.4 million (or approximately RMB34.0 million) and (ii) printing and other fees and expenses of approximately HK$22.5 million (or approximately RMB20.4 million). The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

There were no underwriting commissions incurred up to December 31, 2023 by our Company. The listing expenses incurred up to same by our Company in relation to the Listing and the Global Offering were RMB41.9 million, of which (i) RMB7.8 million, RMB14.4 million and RMB10.1 million were charged to our consolidated statement of profit or loss for the year ended December 31, 2021, 2022 and 2023, respectively, and (ii) RMB9.6 million will be deducted from equity upon Listing.

We estimate that additional listing expenses of approximately RMB26.1 million (including underwriting commissions and other expenses, assuming the Over-allotment Option is not exercised and based on the mid-point of our Offer Price range of HK$5.5 to HK$8.5 per Offer Share) will be incurred by our Company, approximately RMB9.5 million of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB16.6 million of which is expected to be deducted from equity upon Listing.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this prospectus, there has been no material adverse change to our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since December 31, 2023, the end of the period reported on the Accountants' Report included in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on our consolidated net tangible assets as of December 31, 2023 as if the Global Offering had taken place on that date.

Our unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of December 31, 2023 or at any future dates following the Global Offering. It is prepared based on our audited consolidated net tangible assets as of December 31, 2023 as set out in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to December 31, 2023:

	Consolidated net tangible assets attributable to owners of the Company as at December 31, 2023	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at December 31, 2023	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as at December 31, 2023	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as at December 31, 2023
	RMB'000 *(Note 1)*	*RMB'000* *(Note 2)*	*RMB'000*	*RMB* *(Note 3)*	*(HK$ equivalent)* *(Note 4)*
Based on an Offer Price of HK$5.5 per Share	525,561	55,823	581,384	6.23	6.86
Based on an Offer Price of HK$7.0 per Share	525,561	80,758	606,319	6.50	7.16
Based on an Offer Price of HK$8.5 per Share	525,561	105,694	631,255	6.77	7.45

Notes:

1. The consolidated net tangible assets of the Group attributable to equity holders of the parent as at December 31, 2023 were arrived at after deducting other intangible assets of RMB4,056,000 from the consolidated net assets attributable to owners of the parent as at December 31, 2023 of RMB529,617,000 set out in the Accountants' Report in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on an Offer Price of HK$5.5 per Share, HK$7.0 per Share and HK$8.5 per Share, after deduction of the underwriting fees and other related expenses payable by the Company (excluding approximately RMB32,329,000 which have been recognized in profit or loss up to December 31, 2023) and do not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to notes 1 and 2 above and on the basis that 93,300,000 Shares are in issue, assuming the Global Offering has been completed on December 31, 2023.

4. For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balances stated in RMB are converted into HK$ at the rate of RMB1.00 to HK$1.1008 prevailing on the Latest Practicable Date.

5. No adjustments have been made to reflect the trading results or other transactions of the Group entered into after December 31, 2023.

6. No dividends had been declared subsequent to December 31, 2023 and up to the Latest Practicable Date.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure required under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS

For a detailed description of our future plans, please refer to "Business — Our Strategies" in this prospectus.

USE OF PROCEEDS

In the event that the Over-allotment Option is not exercised, we estimate the net proceeds from the Global Offering which we will receive, assuming an Offer Price of HK$7.0 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK$53.3 million, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Global Offering.

In the event that the Over-allotment Option is exercised in full and assuming an Offer Price of HK$7.0 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds from the Global Offering of approximately HK$19.2 million.

If the Offer Price is fixed at HK$8.5 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we will receive (i) additional net proceeds from the Global Offering of approximately HK$27.5 million, assuming the Over-allotment Option is not exercised; and (ii) additional net proceeds from the Global Offering of approximately HK$50.8 million, assuming the Over-allotment Option is exercised in full.

If the Offer Price is fixed at HK$5.5 per Offer Share (being the low end of the Offer Price range stated in this prospectus), the net proceeds from the Global Offering we receive will be (i) reduced by approximately HK$27.5 million, assuming the Over-allotment Option is not exercised; and (ii) reduced by approximately HK$12.4 million, assuming the Over-allotment Option is exercised in full.

We intend to use the net proceeds from the Global Offering for the following purposes assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK$7.0 per Offer Share, being the mid-point of the Offer Price range stated in this prospectus:

- approximately 82.0% of the net proceeds from the Global Offering (or approximately HK$43.7 million), will be used to increase our production capacity at Hubei Xinxuanhong Production Plant by constructing new production facilities focusing mainly on manufacturing toluene chlorination products and derivatives, among which:

  (a) approximately 24.6% of the net proceeds from the Global Offering (or approximately HK$13.1 million), will be used for the construction of Phase I production facilities as well as public auxiliary facilities, which is designed with an annual production capacity of approximately 10,000 tons of benzyl acetate, 20,000 tons of benzyltoluene and 10,000 tons of dibenzylamine;

  The total investment amount of the Phase I production facilities is approximately RMB200 million. The construction of Phase I production facilities was commenced in July 2023 and the Phase I production is expected to begin in the second half of 2024. For details, please refer to "Business — Production Expansion Plan" in this prospectus; and

(b) approximately 57.4% of the net proceeds from the Global Offering (or approximately HK$30.6 million), will be used for the construction of Phase II production facilities, which is expected to further enhance the production capacity of Hubei Xinxuanhong Production Plant as well as upgrade certain public auxiliary facilities. The designed annual production capacity includes approximately 100,000 tons of benzyl chloride, 40,000 tons of benzotrichloride, 40,000 tons of benzoyl chloride, 50,000 tons of benzyl alcohol, 10,000 tons of benzyl acetate and 20,000 tons of dibenzylamine;

The total investment amount of the Phase II production facilities is approximately RMB550 million. The Phase II production is expected to begin in the second half of 2026. For details, please refer to "Business — Production Expansion Plan" in this prospectus;

- approximately 3.0% of the net proceeds from the Global Offering (or approximately HK$1.6 million), will be used for our research and development activities, among which:

(a) approximately 0.9% of the net proceeds from the Global Offering (or approximately HK$0.5 million), will be used for the joint establishment of photocatalytic laboratory with Central China Normal University (華中師範大學) to explore the industrial application of photocatalytic reactions; and

(b) approximately 2.1% of the net proceeds from the Global Offering (or approximately HK$1.1 million), will be used for the construction of pilot plants (中試車間) at the site of Hubei Xinlianhong located in Qianjiang, Hubei Province. The pilot plant is used to test the amplification effect of laboratory results, which is a critical platform to promote the realization of scientific and technology achievements from development to commercialization;

- approximately 5.0% of the net proceeds from the Global Offering (or approximately HK$2.7 million), will be used for sales and marketing activities to enhance our brand recognition in the PRC and overseas. The intended allocation of this portion of the net proceeds is primarily as follows:

(a) approximately 3.0% of the net proceeds from the Global Offering (or approximately HK$1.6 million), will be used in participation in domestic and overseas exhibitions; and

(b) approximately 2.0% of the net proceeds from the Global Offering (or approximately HK$1.1 million), will be used for establishing branch offices in United States;

- approximately 10.0% of the net proceeds from the Global Offering (or approximately HK$5.3 million), will be used for our working capital and general corporate purposes, including procurement of raw materials and management of inventory level.

The above allocation of the net proceeds from the Global Offering will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the proposed Offer Price range. In the event that the Over-allotment Option is exercised in full, we intend to apply the additional net proceeds from the Global Offering to the above uses in the proportions stated above.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds from the Global Offering into short-term interest bearing accounts at licensed commercial banks and/or other authorized financial institutions (as defined under the Securities and Futures Ordinance or applicable laws and regulations in relevant jurisdictions). We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

HONG KONG UNDERWRITERS

BOCOM International Securities Limited
ABCI Securities Company Limited
CCB International Capital Limited
CEB International Capital Corporation Limited
China Everbright Securities (HK) Limited
China Industrial Securities International Capital Limited
CMBC Securities Company Limited
Essence International Securities (Hong Kong) Limited
Futu Securities International (Hong Kong) Limited
ICBC International Securities Limited
Phillip Securities (Hong Kong) Limited
Quam Securities Limited
Sinomax Securities Limited
SPDB International Capital Limited
Yue Xiu Securities Company Limited
Zhongtai International Securities Limited
China Sunrise Securities (International) Ltd
CNI Securities Group Limited
Fortune Origin Securities Limited
Maxa Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company has agreed to initially offer 1,830,000 new Shares (subject to reallocation) for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus at the Offer Price.

Subject to, among other conditions, the granting of the approval for the listing of, and permission to deal in, all the Shares in issue and any Shares to be issued as mentioned in this prospectus by the Stock Exchange and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally, but not jointly, agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus and the Hong Kong Underwriting Agreement. In addition, the Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Hong Kong Underwriters to subscribe, or procure subscribers for, the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Sole Overall Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall have the right, in its sole and absolute discretion to terminate the Hong Kong Underwriting Agreement by notice in writing to our Company, the Controlling Shareholders and our executive Directors with immediate effect at any time at or prior to 8:30 a.m. (Hong Kong time) on the Listing Date if:

(a) there has come to the notice of the Sole Overall Coordinator:

(i) that any statement contained in this prospectus, the formal notice in relation to the Hong Kong Public Offering in the agreed form required to be published in accordance with the Listing Rules (the "**Formal Notice**") and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading or deceptive in any material respects, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of such documents is in any material respect not, in the reasonable opinion of the Sole Overall Coordinator (for itself and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, the Price Determination Date and the Listing Date, constitute an omission that is material in the context of the Global Offering which gives or likely to give rise to any liability of our Company; or

(iii) any event, act or omission which gives or is likely to give rise to any liability in any material respect of our Company, our Controlling Shareholders or any of our executive Directors pursuant to the indemnities given by any of them under the Underwriting Agreements; or

(iv) that the approval by the Stock Exchange of the listing of, and permission to deal in, the Shares in issue and the Offer Shares to be issued pursuant to the Global Offering (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified other than subject to customary conditions, on or before the Listing Date or such other date as may be extended pursuant to the Hong Kong Underwriting Agreement, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(v) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(vi) any person (other than the Sole Sponsor, and any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus as expert or to the issue of this prospectus; or

(vii) any material breach of any of the obligations or undertakings imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers or the Underwriters); or

(viii) any material adverse change or development in the results of operations, financial position or business prospects of our Group as stated in this prospectus as a whole; or

(ix) any material breach of, or any event rendering untrue or incorrect in any material respect, any of the warranties given by our Company and our Controlling Shareholders (the "**Warrantors**") in the Hong Kong Underwriting Agreement; or

(x) a portion of the orders confirmed in the book building process, at the time the International Underwriting Agreement is entered into, have been withdrawn, terminated or cancelled and such orders have not been covered or replaced by other orders, which would render it, in the Sole Overall Coordinator's sole opinion, commercially impracticable or incapable to proceed with the Global Offering; or

(xi) any loss or damage has been sustained by any members of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Overall Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole opinion to be material; or

(xii) the acceptance of the CSRC of the filings in respect of the Global Offering (the "**CSRC Filings**") and the publication of the filing results in respect of the CSRC Filings on its website is rejected or not granted, on or before the date of the Listing, or if granted or accepted, the acceptance is subsequently withdrawn, cancelled, qualified, revoked, invalidated or withheld;

(b) there develops, occurs, exists, or comes into effect:

(i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, outbreaks of diseases, pandemics or epidemics (including, without limitation, COVID-19 (and such related/mutated form), Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome), in or affecting Hong Kong, the PRC, the United States, the Cayman Islands, the BVI or any other jurisdiction relevant to any member of our Group (the "**Relevant Jurisdictions**") or the Global Offering; or

(ii) any change or development involving a prospective material adverse change, or any event or series of events, resulting or likely to result in any material adverse change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions; or

(iii) any new laws or regulation or any change in existing laws or regulations, or any change in the interpretation or application thereof by any court or other competent authority ("**Governmental Authority**") in or affecting any of the Relevant Jurisdictions; or

(iv) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on any of the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or

(v) any material change or development involving a prospective material change in or affecting taxation or exchange control, currency exchange rates or foreign investment laws (including, without limitation, a material devaluation of the Hong Kong dollar or Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions or affecting an investment in the Shares; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or

(vii) any general moratorium on commercial banking activities in any Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or

(viii) any order or petition for the winding up of any member of our Group, or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or

(ix) any material litigation or claim of any third party being threatened or instigated against our Group or any of the Warrantors; or

(x) any Director or any member of senior management of the Company being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(xi) the chief executive officer, chief financial officer, any executive Director or Mr. Gao Lei vacating his office; or

(xii) any governmental authority or a political body or organization in any Relevant Jurisdictions is commencing any action, or announcing an intention to take such action, against any Director in his or her capacity as such; or

(xiii) any contravention, other than those disclosed in this prospectus, by any member of our Group or any Director of the Listing Rules, the Companies Ordinance or any other laws applicable to the Global Offering; or

(xiv) any non-compliance of this prospectus (or any other documents used in connection with the Global Offering) or any aspect of the Global Offering with the Listing Rules or any other applicable laws, rules, regulations, orders, judgments, decrees, guidelines, opinions, notices, circulars or rulings of any court, Governmental Authority; or

(xv) any change or development involving a prospective material change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(xvi) other than with the prior written consent of the Sole Overall Coordinator, the issue of or the requirement by our Company to issue any supplement or amendment to the prospectus published by our Company in accordance with the Hong Kong Underwriting Agreement (or any other documents used in connection with the Global Offering) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange, the SFC and/or CSRC; or

(xvii) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Global Offering; or

(xviii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity,

which, in each case individually or in aggregate, in the sole opinion of the Sole Overall Coordinator (for itself and on behalf of the Hong Kong Underwriters):

(i) has or will or is likely to have a material adverse effect on the management, condition (financial, operational, legal or otherwise), business, prospects, operations, shareholders' equity, as applicable, or results of operations of our Group taken as a whole; or

(ii) has or will or is likely to have a materially adverse effect on the success or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or

(iii) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to be performed or implemented or proceed with as envisaged or to market the Global Offering on terms and in the manner contemplated by this prospectus; or

(iv) has or will or is likely have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms in material respect or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Indemnity

Our Company has agreed to indemnify the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Undertakings to the Hong Kong Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers and the Hong Kong Underwriters that:

(a) except for the issue of the Shares pursuant to the Global Offering, the exercise of the Over-allotment Option or as otherwise with the prior written consent from the Sole Overall Coordinator, and unless in compliance with the Listing Rules, our Company will not, and will procure that none of our subsidiaries will, during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"):

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable), or deposit any Shares or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company, as applicable; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction described in paragraph (i) or (ii) above; or

(iv) offer to or to agree or announce any intention to effect, any transaction described in paragraph (i), (ii) or (iii) above,

whether any of the foregoing transactions described in paragraph (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities of our Company, in cash or otherwise (whether or not the issue of our Shares or such other securities will be completed within the aforesaid period); and

(b) our Company will not enter into any of the transactions specified in (a) (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the "**Second Six-Month Period**").

(c) in the event of our Company entering into or agreeing to enter into any of the foregoing transactions in respect of any Share or other securities of our Company or any member of our Group or any interest therein by virtue of the aforesaid exceptions or during the Second Six-Month Period, it will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Our Controlling Shareholders jointly and severally undertake to each of the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement or otherwise in compliance with the requirements under the Listing Rules, without the prior written consent of the Sole Sponsor and the Sole Overall Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

(a) at any time during the First Six-Month Period, it/he shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him and the companies controlled by it/he (together, the "**Controlled Entities**") shall not, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him directly or indirectly through its Controlled Entities (for the avoidance of doubts, exclude the Shares held by Custodian Capital Ltd. on behalf of the Retaining Shareholders and the Unresponsive Shareholders) (the "**Relevant Securities**"), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; (iii) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (i) or (ii) above; or (iv) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (i), (ii) or (iii) above, in each case whether any of the foregoing transactions referred to in sub-paragraphs (i), (ii) or (iii) is to be settled by delivery of Shares or any other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

(b) at any time during the Second Six-Month Period, it/he shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in paragraphs (a) (i), (ii) or (iii) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it/he would cease to be a "controlling shareholder" (as defined in the Listing Rules) of the Company or would together with the other Controlling Shareholders cease to be "controlling shareholders" (as defined in the Listing Rules) of the Company;

(c) in the event that it/he enters into any of the transactions specified in paragraphs (a) (i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it/he shall take all reasonable steps to ensure that it/he will not create a disorderly or false market for any Shares or other securities of our Company; and

(d) it/he shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/he or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company (for the avoidance of doubts, exclude the Shares held by Custodian Capital Ltd. on behalf of the Retaining Shareholders and the Unresponsive Shareholders).

Our Controlling Shareholders further undertake to each of the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he will:

(a) when it/he pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, promptly inform the Company, the Sole Sponsor and the Sole Overall Coordinator in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and

(b) when it/he receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, promptly inform our Company, the Sole Sponsor and the Sole Overall Coordinator in writing of such indications.

Our Company will inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

Undertakings to the Stock Exchange

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by our Company or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances permitted by Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have, irrevocably and unconditionally, undertaken to the Stock Exchange and our Company that except pursuant to the Global Offering and exercise of the Over-allotment Option, he/it shall not, and shall procure that the relevant registered holder(s) shall not:

(a) at any time during the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner(s) (for the avoidance of doubts, exclude the Shares held by Custodian Capital Ltd. on behalf of the Retaining Shareholders and the Unresponsive Shareholders); and

(b) at any time during the Second Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholder (as defined in the Listing Rules) or would together with the other Controlling Shareholders cease to be, or regarded as, a group of Controlling Shareholders (as defined in the Listing Rules) of our Company.

Our Controlling Shareholders have further undertaken to the Stock Exchange and our Company that, within a period commencing from the date on which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

(a) when he/it pledges or charges any of the Shares or securities of our Company beneficially owned by him/it (for the avoidance of doubts, exclude the Shares held by Custodian Capital Ltd. on behalf of the Retaining Shareholders and the Unresponsive Shareholders), whether directly or indirectly, in favor of an authorized institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares or securities of our Company so pledged or charged; and

(b) if he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, immediately inform our Company of such indications.

International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below.

Under the International Underwriting Agreement, subject to the conditions set out therein, the International Underwriters would, subject to certain conditions, severally, but not jointly, agree to procure subscribers for the International Offer Shares initially being offered pursuant to the International Offering (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). The International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

The International Underwriting Agreement is conditional on and subject to the Hong Kong Underwriting Agreement having been executed, becoming unconditional and not having been terminated. Pursuant to the International Underwriting Agreement, our Company will make similar undertakings as those given pursuant to the Hong Kong Underwriting Agreement as described in the subsection headed "– Undertakings to the Hong Kong Underwriters – Undertakings by our Company" in this section of the prospectus.

Commission and Expenses

The Hong Kong Underwriters will, and the International Underwriters are expected to, receive a commission of 2.70% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option) underwritten by them or approximately HK$14.9 million in aggregate, whichever is higher (the "**Fixed Fees**"), out of which they shall pay any sub-underwriting commissions. Our Company may, at our sole and absolute discretion, pay to the Sole Overall Coordinator (for itself and on behalf of the Underwriters) for their respective accounts an incentive fee up to 1.0% of the Offer Price for each Offer Share (the "**Discretionary Fees**"). Assuming the Offer Price is HK$7.0, being the mid-point of the indicative Offer Price range and the Discretionary Fees are paid in full, the ratio of the Fixed Fees and Discretionary Fees payable is 92:8.

Assuming the Over-allotment Option is not exercised, the underwriting commission, documentation and advisory fee, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK$7.0 (being the mid-point of the indicative Offer Price range), are estimated to amount to approximately HK$74.8 million in total, and are payable by our Company.

SOLE OVERALL COORDINATOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Sole Overall Coordinator and the other Underwriters will receive underwriting commissions. For particulars of these underwriting commissions and expenses, please refer to "— Underwriting Arrangements and Expenses — Commission and expenses" in this prospectus.

We have appointed BOCOM International (Asia) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of the despatch of our annual report for the first full financial year commencing after the Listing Date.

Save as disclosed above, none of the Underwriters is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group nor any interest in the Global Offering.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum of 25.0% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

THE GLOBAL OFFERING

The Global Offering comprises:

(a) the Hong Kong Public Offering of 1,830,000 Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in "The Hong Kong Public Offering" in this section; and

(b) the International Offering of an aggregate of 16,470,000 Shares (subject to reallocation as mentioned below and the Over-allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in "– The International Offering" below.

Investors may either apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both. References in this prospectus to applications, application monies or the procedures for application relate solely to the Hong Kong Public Offering.

The Offer Shares will represent approximately 19.6% of the total issued share capital of our Company immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

THE HONG KONG PUBLIC OFFERING

Number of Shares initially offered

We are initially offering 1,830,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10.0% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Shares between the Hong Kong Public Offering and the International Offering, the Hong Kong Offer Shares will initially represent approximately 2.0% of the total issued share capital of our Company immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to professional, institutional and/or other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraphs headed "Conditions of the Hong Kong Public Offering" in this section.

Allocation

The allocation of the Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

- Pool A: The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK$5.0 million or less (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy); and

- Pool B: The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK$5.0 million and up to the total value of pool B (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy).

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools.

Multiple applications or suspected multiple applications within either pool or between pools and any application for more than 915,000 Hong Kong Offer Shares are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if the International Offering is fully subscribed or oversubscribed and certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 5,490,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 7,320,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 9,150,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In addition, the Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Sponsor, subject to the requirements of Chapter 4.14 of the Guide for New Listing Applicants published by the Stock Exchange. If the Hong Kong Public Offering is not fully subscribed for, the Sole Overall Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering. In addition, the Sole Overall Coordinator may in its discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In particular, if (i) the International Offering is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, the Sole Overall Coordinator has the authority to reallocate International Offer Shares originally included in the International Offering to the Hong Kong Public Offering, subject to the requirements of Chapter 4.14 of the Guide for New Listing Applicants published by the Stock Exchange. In accordance with Chapter 4.14 of the Guide for New Listing Applicants, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, (i) the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. up to a maximum of 3,660,000 Offer Shares), and (ii) the final Offer Price shall be fixed at HK$5.5 per Offer Share, the low-end of the Offer Price range stated in this prospectus.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Sponsor in its discretion considers appropriate.

In the event that both the Hong Kong Public Offering and International Offering are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus and the Underwriting Agreements.

Any such clawback and reallocation between the International Offering and the Hong Kong Public Offering will be completed prior to any adjustments of the number of the Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering. Multiple or suspected multiple applications within either pool or between pools and any application for more than 50% of the Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering are liable to be rejected.

Applicants under the Hong Kong Public Offering may be required to pay (subject to application channels), on application, the maximum price of HK$8.5 per Offer Share in addition to the brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy, amounting to a total of HK$4,292.86 per board lot of 500 Offer Shares. If the Offer Price, as finally determined in the manner described in the "Price Determination of the Global Offering" in this section, is less than the maximum price of HK$8.5 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy attributable to the surplus application monies) will be made to successful applicants (subject to application channels), without interest. For further details, please refer to "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

The International Offering will consist of an initial offering of 16,470,000 Shares (subject to reallocation and the Over-allotment Option), representing 90% of the total number of Offer Shares initially available under the Global Offering and approximately 17.7% of the total issued share capital immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised). The International Offering will be offered by us to professional, institutional and/or other investors in Hong Kong.

Allocation

The International Offering will include selective marketing of the International Offer Shares to professional, institutional and/or other investors anticipated to have a sizeable demand for the International Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "Price Determination of the Global Offering" below and based on a number of factors, including the level and timing of demand, and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole.

The Sole Overall Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Overall Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application of the Hong Kong Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement as described in "The Hong Kong Public Offering – Reallocation" in this section and/or the exercise of the Over-allotment Option in whole or in part. In addition, the Sole Overall Coordinator may reallocate International Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy the valid applications under the Hong Kong Public Offering that exceeds the number of Hong Kong Offer Shares initially offered. The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Overall Coordinator, subject to the requirements of Chapter 4.14 of the Guide for New Listing Applicants published by the Stock Exchange.

PRICE DETERMINATION OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Friday, June 14, 2024 by agreement between the Sole Overall Coordinator (for itself and on behalf of the Underwriters) and our Company, and the number of Offer Shares to be allocated or sold under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$8.5 per Offer Share and is expected to be not less than HK$5.5 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus. If you apply for the Offer Shares under the Hong Kong Public Offering, you may be required to pay the maximum price of HK$8.5 per Offer Share (subject to application channels), plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%.

If the Offer Price, as finally determined in the manner described below, is lower than HK$8.5, we will refund the respective difference, including brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy attributable to the surplus application monies (subject to application channels). We will not pay interest on any refunded amounts. For more details, please refer to "How to Apply for Hong Kong Offer Shares" in this prospectus.

The Sole Overall Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the Offer Price Range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.chinaorganic.com** (the contents of the website do not form a part of this prospectus). Our Company will also, as soon as practicable following the decision to make such a change, issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the Offer Price. The Global Offering must first be canceled and subsequently relaunched on FINI pursuant to the supplemental prospectus.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price Range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also confirm or revise, as appropriate, the working capital statement, the Global Offering statistics as currently set out in "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company, the Sole Overall Coordinator (for itself and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price Range as stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price is reduced, our Company will issue a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the Offer Price. The Global Offering must first be canceled and subsequently relaunched on FINI pursuant to the supplemental prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. If there is any change to the offer size due to change in the number of Offer Shares initially offered in the Global Offering (other than pursuant to the exercise of the Over-allotment Option and/or reallocation mechanism as disclosed in this prospectus), or change to the Offer Price which leads to the resulting price falling outside the indicative Offer Price Range as stated in this prospectus, or if our Company becomes aware that there has been a significant change affecting any matter contained in this prospectus or a significant new matter has arisen, the inclusion of information in respect of which would have been required to be in this prospectus if it had arisen before this prospectus was issued, after the issue of this prospectus and before the commencement of dealings in our Shares as prescribed under Rule 11.13 of the Listing Rules, we are required to cancel the Global Offering and relaunch the offer and issue a supplemental prospectus or a new prospectus and complete the requisite associated settlement processes on the FINI platform afresh.

In the event of a reduction in the number of Offer Shares, the Sole Overall Coordinator (for itself and on behalf of the Underwriters) may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting fees and estimated expenses payable by our Company in relation to the Global Offering) are estimated to be approximately HK$53.3 million, assuming an Offer Price per Offer Share of HK$7.0 (being the mid-point of the stated indicative Offer Price range of HK$5.5 to HK$8.5 per Offer Share).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Monday, June 17, 2024 on the website of our Company (**www.chinaorganic.com**) and the website of the Stock Exchange (**www.hkexnews.hk**).

If the Sole Overall Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before 12:00 noon on Friday, June 14, 2024, the Global Offering will not become unconditional and will lapse immediately.

UNDERWRITING AGREEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter(s) under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, and the International Underwriters expect to enter into the International Underwriting Agreement relating to the International Offering on or about the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarized in "Underwriting" in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of HKSCC and HKSCC Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant to the Sole Overall Coordinator (for itself and on behalf of the Underwriters) the Over-allotment Option, exercisable by the Sole Overall Coordinator (for itself and on behalf of the Underwriters) to cover over-allocations under the International Offering (if any). Pursuant to the Over-allotment Option, the Sole Overall Coordinator (for itself and on behalf of the Underwriters) will have the right, exercisable at any time from the Listing Date until Saturday, July 13, 2024, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering, to require our Company to issue up to 2,745,000 Shares, representing 15.0% of the Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to cover over-allocation in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 2.9% of the enlarged issued share capital of our Company in issue following completion of the Global Offering and the exercise of the Over-allotment Option.

The additional net proceeds that we would receive if the Over-allotment Option is exercised in full (assuming the Offer Price of HK$7.0 per Share (being the mid-point of the indicative Offer Price range)) are estimated to be approximately HK$19.2 million, which would be applied to the respective uses on a pro-rata basis as disclosed in "Future Plans and Use of Proceeds – Implementation Plans" in this prospectus.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period on and after the Listing Date. However, there is no obligation on the Stabilizing Manager or any persons acting for it, to conduct any such stabilizing action. Such stabilizing action, if taken, will be conducted at the sole and absolute discretion of the Stabilizing Manager or its affiliates or any person acting for it and may be discontinued at any time, and is required to be brought to an end by Saturday, July 13, 2024, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong under the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in the Shares should note that:

(a) the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;

(b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;

(c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market, may have an adverse impact on the market price of the Shares;

(d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and is expected to expire on Saturday, July 13, 2024, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After such date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;

(e) the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and

(f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids or transactions effected may be made at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

Stock Borrowing Agreement

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to enter into an agreement with Vastocean Capital Limited, our Controlling Shareholder, to borrow, whether on its own or through its affiliates, up to 2,745,000 Shares, representing 15.0% of the total number of the Offer Shares initially available for the Global Offering. The stock borrowing arrangement under such an agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with as follows:

(a) such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;

(b) the maximum number of Shares to be borrowed from Vastocean Capital Limited by the Stabilizing Manager (or any person acting for it) is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;

(c) the same number of Shares so borrowed must be returned to Vastocean Capital Limited or its nominee(s) within three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised, and (b) the day on which the Over-allotment Option is exercised in full; and

(d) no payment will be made to Vastocean Capital Limited by the Underwriters and the Stabilizing Manager.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(a) the Stock Exchange granting the listing of, and permission to deal in, the Shares being offered pursuant to the Global Offering (including any Shares to be issued upon the exercise of the Over-allotment Option);

(b) the Offer Price having been fixed on or about the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and those of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with its terms, on or before the dates and times specified in the respective agreements.

If, for any reason, the Offer Price is not agreed between the Sole Overall Coordinator (for itself and on behalf of the Underwriters) and our Company, or the International Underwriting Agreement is not entered into, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Global Offering will be published on our Company's website (**www.chinaorganic.com**) and the Stock Exchange's website (**www.hkexnews.hk**) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Shares are expected to be issued on Monday, June 17, 2024 but will only become valid evidence of title at 8:00 a.m. on Tuesday, June 18, 2024 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for termination" in this prospectus has not been exercised.

DEALINGS

Assuming that the Global Offering becomes unconditional at or before 8:30 a.m. in Hong Kong on Tuesday, June 18, 2024, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, June 18, 2024.

The Shares will be traded in board lots of 500 Shares each. The stock code of the Shares is 2881.

IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Stock Exchange at **www.hkexnews.hk** under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at **www.chinaorganic.com**. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

A. APPLICATION FOR HONG KONG OFFER SHARES

1. Who Can Apply

You can apply for Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying for:

- are 18 years of age or older; and
- have a Hong Kong address *(for the* ***HK eIPO White Form*** *service only).*

Unless permitted by the Listing Rules or a waiver and/or consent has been granted by the Stock Exchange to us, you cannot apply for any Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying for:

- are an existing Shareholder or close associate;
- are a Director or any of his/her close associates;

2. Application Channels

The Hong Kong Public Offering period will begin at 9:00 a.m. on Friday, June 7, 2024 and end at 12:00 noon on Thursday, June 13, 2024 (Hong Kong time).

To apply for Hong Kong Offer Shares, you may use one of the following application channels:

Application Channel	Platform	Target Investors	Application Time
HK eIPO White Form service	(1) the **IPO App**, which can be downloaded by searching "**IPO App**" in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp** (2) the designated website **www.hkeipo.hk**	Investors who would like to receive a physical Share certificate. Hong Kong Offer Shares successfully applied for will be allotted and issued in your own name.	From 9:00 a.m. on Friday, June 7, 2024 to 11:30 a.m. on Thursday, June 13, 2024, Hong Kong time. The latest time for completing full payment of application monies will be 12:00 noon on Thursday, June 13, 2024, Hong Kong time.
HKSCC EIPO channel	Your broker or custodian who is a HKSCC Participant will submit an EIPO application on your behalf through HKSCC's FINI system in accordance with your instruction	Investors who would not like to receive a physical Share certificate. Hong Kong Offer Shares successfully applied for will be allotted and issued in the name of HKSCC Nominees, deposited directly into CCASS and credited to your designated HKSCC Participant's stock account.	Contact your broker or custodian for the earliest and latest time for giving such instructions, as this may vary by broker or custodian.

The **HK eIPO White Form** service and the HKSCC EIPO channel are facilities subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day of the application period to apply for Hong Kong Offer Shares.

For those applying through the **HK eIPO White Form** service, once you complete payment in respect of any application instructions given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an application instruction under the **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you apply through the **HK eIPO White Form** service, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

By instructing your broker or custodian to apply for the Hong Kong Offer Shares on your behalf through the HKSCC EIPO Channel, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant HKSCC Participants) to apply for Hong Kong Offer Shares on your behalf and to do on your behalf all the things stated in this prospectus and any supplement to it.

For those applying through HKSCC EIPO channel, an actual application will be deemed to have made for any application instructions given by you or for your benefit to HKSCC (in which case an application will be made by HKSCC Nominees on your behalf) provided such application instruction has not been withdrawn or otherwise invalidated before the closing time of the Hong Kong Public Offering.

HKSCC Nominees will only be acting as a nominee for you and neither HKSCC nor HKSCC Nominees shall be liable to you or any other person in respect of any actions taken by HKSCC or HKSCC Nominees on your behalf to apply for Hong Kong Offer Shares or for any breach of the terms and conditions of this prospectus.

3. Information Required to Apply

You <u>must</u> provide the following information with your application:

For Individual Applicants

- Full name(s)[(2)] as shown on your identity document
- Identity document's issuing country or jurisdiction
- Identity document type, with order of priority:
  i. HKID card; or
  ii. National identification document; or
  iii. Passport; and
- Identity document number

For Corporate Applicants

- Full name(s)[(2)] as shown on your identity document
- Identity document's issuing country or jurisdiction
- Identity document type, with order of priority:
  i. LEI registration document; or
  ii. Certificate of incorporation; or
  iii. Business registration certificate; or
  iv. Other equivalent document; and
- Identity document number

Notes:

(1) If you are applying through the **HK eIPO White Form** service, you are required to provide a valid e-mail address, a contact telephone number and a Hong Kong Address. You are also required to declare that the identity information provided by you follows the requirements as described in Note 2 below. In particular, where you cannot provide a HKID number, you must confirm that you do not hold a HKID card. The number of joint applicants may not exceed four. If you are a firm, the applicant must be in the individual members' names.

(2) The applicant's full name as shown on their identity document must be used. If an applicant's identity document contains both an English and Chinese name, both English and Chinese names must be used. Otherwise, either English or Chinese names will be accepted. The order of priority of the applicant's identity document type must be strictly followed and where an individual applicant has a valid HKID card, the HKID number must be used when making an application to subscribe for shares in a public offer. Similarly for corporate applicants, a LEI number must be used if an entity has a LEI certificate.

(3) If the applicant is a trustee, the client identification data ("**CID**") of the trustee, as set out above, will be required. If the applicant is an investment fund (i.e. a collective investment scheme, or CIS), the CID of the asset management company or the individual fund, as appropriate, which has opened a trading account with the broker will be required, as above.

(4) The maximum number of joint account holders on FINI is capped at 4[1] in accordance with market practice.

(5) If you are applying as a nominee, you must provide: (i) the full name (as shown on the identity document), the identity document's issuing country or jurisdiction, the identity document type; and (ii), the identity document number, for each of the beneficial owners or, in the case(s) of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

(6) If you are applying as an unlisted company and (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit and you should provide the required information in your application as stated above.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange or any other stock exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

For those applying through HKSCC EIPO channel, and making an application under a power of attorney, we and the Sole Overall Coordinator, as our agent, may accept it at our discretion and on any conditions we think fit, including evidence of the attorney's authority.

[1] Subject to change, if the Company's Articles of Incorporation and applicable company law prescribe a lower cap.

Failing to provide any required information may result in your application being rejected.

4. Permitted Number of Hong Kong Offer Shares for Application

Board lot size	:	500
Permitted number of Hong Kong Offer Shares for application and amount payable on application/ successful allotment	:	Hong Kong Offer Shares are available for application in specified board lot sizes only. Please refer to the amount payable associated with each specified board lot size in the table below. The maximum Offer Price is HK$8.50 per Share. If you are applying through the HKSCC EIPO channel, you are required to pre-fund your application based on the amount specified by your broker or custodian, as determined based on the applicable laws and regulations in Hong Kong. By instructing your broker or custodian to apply for the Hong Kong Offer Shares on your behalf through the HKSCC EIPO Channel, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant HKSCC Participants) to arrange payment of the final Offer Price, brokerage, SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy by debiting the relevant nominee bank account at the Designated Bank for your broker or custodian. If you are applying through the **HK eIPO White Form** service, you may refer to the table below for the amount payable for the number of Shares you have selected. You must pay the respective maximum amount payable on application in full upon application for Hong Kong Offer Shares.

No. of Hong Kong Offer Shares applied for	Maximum amount payable(2) on application/ successful allotment	No. of Hong Kong Offer Shares applied for	Maximum amount payable(2) on application/ successful allotment	No. of Hong Kong Offer Shares applied for	Maximum amount payable(2) on application/ successful allotment	No. of Hong Kong Offer Shares applied for	Maximum amount payable(2) on application/ successful allotment
	HK$		*HK$*		*HK$*		*HK$*
500	4,292.86	7,000	60,100.06	50,000	429,286.13	400,000	3,434,289.00
1,000	8,585.72	8,000	68,685.78	60,000	515,143.36	450,000	3,863,575.13
1,500	12,878.58	9,000	77,271.50	70,000	601,000.58	500,000	4,292,861.26
2,000	17,171.45	10,000	85,857.23	80,000	686,857.80	600,000	5,151,433.50
2,500	21,464.30	15,000	128,785.83	90,000	772,715.03	700,000	6,010,005.76
3,000	25,757.17	20,000	171,714.46	100,000	858,572.26	800,000	6,868,578.00
3,500	30,050.02	25,000	214,643.07	150,000	1,287,858.38	915,000(1)	7,855,936.09
4,000	34,342.89	30,000	257,571.68	200,000	1,717,144.50		
4,500	38,635.75	35,000	300,500.29	250,000	2,146,430.63		
5,000	42,928.61	40,000	343,428.90	300,000	2,575,716.76		
6,000	51,514.34	45,000	386,357.51	350,000	3,005,002.88		

(1) Maximum number of Hong Kong Offer Shares you may apply for and this is 50% of the Hong Kong Offer Shares initially offered.

(2) The amount payable is inclusive of brokerage, SFC transaction levy, the Stock Exchange trading fee and AFRC transaction levy. If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules) or to the **HK eIPO White Form** Service Provider (for applications made through the application channel of the **HK eIPO White Form** Service Provider) while the SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy will be paid to the SFC, the Stock Exchange and the AFRC, respectively.

5. Multiple Applications Prohibited

You or your joint applicant(s) shall not make more than one application for your own benefit, except where you are a nominee and provide the information in your application as required under the paragraph headed *"– A. Applications for Hong Kong Offer Shares – 3. Information Required to Apply"* in this section. If you are suspected of submitting or cause to submit more than one application, all of your applications will be rejected.

Multiple applications made either through (i) the **HK eIPO White Form** service, (ii) HKSCC EIPO channel, or (iii) both channels concurrently are prohibited and will be rejected. If you have made an application through the **HK eIPO White Form** service or HKSCC EIPO channel, you or the person(s) for whose benefit you have made the application shall not apply for any Hong Kong Offer Shares.

The Hong Kong Share Registrar would record all applications into its system and identify suspected multiple applications with identical names and identification document numbers according to the Best Practice Note on Treatment of Multiple/Suspected Multiple Applications ("Best Practice Note") issued by the Federation of Share Registrars Limited.

Since applications are subject to personal information collection statements, identification document numbers displayed are redacted.

6. Terms and Conditions of An Application

By applying for Hong Kong Offer Shares through the **HK eIPO White Form** service or HKSCC EIPO channel, you (or as the case may be, HKSCC Nominees will do the following things on your behalf):

(i) undertake to execute all relevant documents and instruct and authorise us and/or the Sole Overall Coordinator, as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association, and (if you are applying through the HKSCC EIPO channel) to deposit the allotted Hong Kong Offer Shares directly into CCASS for the credit of your designated HKSCC Participant's stock account on your behalf;

(ii) confirm that you have read and understand the terms and conditions and application procedures set out in this prospectus and the **IPO App** or designated website of the **HK eIPO White Form** service (or as the case may be, the agreement you entered into with your broker or custodian), and agree to be bound by them;

(iii) (if you are applying through the HKSCC EIPO channel) agree to the arrangements, undertakings and warranties under the participant agreement between your broker or custodian and HKSCC and observe the General Rules of HKSCC and the HKSCC Operational Procedures for giving application instructions to apply for Hong Kong Offer Shares;

(iv) confirm that you are aware of the restrictions on offers and sales of shares set out in this prospectus and they do not apply to you, or the person(s) for whose benefit you have made the application;

(v) confirm that you have read this prospectus and any supplement to it and have relied only on the information and representations contained therein in making your application (or as the case may be, causing your application to be made) and will not rely on any other information or representations;

(vi) agree that the Relevant Persons[2], the Hong Kong Share Registrar and HKSCC will not be liable for any information and representations not in this prospectus and any supplement to it;

(vii) agree to disclose the details of your application and your personal data and any other personal data which may be required about you and the person(s) for whose benefit you have made the application to us, the Relevant Persons, the Hong Kong Share Registrar, HKSCC, HKSCC Nominees, the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations, for the purposes under the paragraph headed *"– G. Personal Data – 3. Purposes and 4. Transfer of personal data"* in this section;

[2] For the purpose of this prospectus, Relevant Persons would include the Sole Sponsor, the Sole Overall Coordinator, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their or the Company's respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering.

(viii) agree (without prejudice to any other rights which you may have once your application (or as the case may be, HKSCC Nominees' application) has been accepted) that you will not rescind it because of an innocent misrepresentation;

(ix) agree that subject to Section 44A(6) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any application made by you or HKSCC Nominees on your behalf cannot be revoked once it is accepted, which will be evidenced by the notification of the result of the ballot by the Hong Kong Share Registrar by way of publication of the results at the time and in the manner as specified in the paragraph headed "– B. Publication of Results" in this section; agree that once any application made by you or HKSCC Nominees on your behalf is accepted, the application cannot be revoked, and that acceptance of the application will be evidenced by the notification of the result of the ballot by the Hong Kong Share Registrar;

(x) confirm that you are aware of the situations specified in the paragraph headed *"– C. Circumstances In Which You Will Not Be Allocated Hong Kong Offer Shares"* in this section;

(xi) agree that your application or HKSCC Nominees' application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(xii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Articles of Association and laws of any place outside Hong Kong that apply to your application and that neither we nor the Relevant Persons will breach any law inside and/ or outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;

(xiii) confirm that (a) your application or HKSCC Nominees' application on your behalf is not financed directly or indirectly by the Company, any of the directors, chief executives, substantial Shareholder(s) or existing shareholder(s) of the Company or any of its subsidiaries or any of their respective close associates; and (b) you are not accustomed or will not be accustomed to taking instructions from the Company, any of the directors, chief executives, substantial shareholder(s) or existing shareholder(s) of the Company or any of its subsidiaries or any of their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Shares registered in your name or otherwise held by you;

(xiv) warrant that the information you have provided is true and accurate;

(xv) confirm that you understand that we and the Sole Overall Coordinator will rely on your declarations and representations in deciding whether or not to allocate any Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xvi) agree to accept Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;

(xvii) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the application channel of the **HK eIPO White Form** Service Provider or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (1) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and the **HK eIPO White Form** Service Provider and (2) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

B. PUBLICATION OF RESULTS

Results of Allocation

You can check whether you are successfully allocated any Hong Kong Offer Shares through:

Platform		Date/ Time
Applying through the **HK eIPO White Form** service or **HKSCC EIPO channel**:		
IPO APP and Website	from the "IPO Results" function in the **IPO App** and the designated results of allocation website at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** with a "search by ID" function.	24 hours, from 11:00 p.m. on Monday, June 17, 2024 to 12:00 midnight on Sunday, June 23, 2024 (Hong Kong time)
	The full list of (i) wholly or partially successful applicants using the **HK eIPO White Form** service and HKSCC EIPO channel, and (ii) the number of Hong Kong Offer Shares conditionally allotted to them, among other things, will be displayed on the designated results of allocation website at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult**	
	The Stock Exchange's website at **www.hkexnews.hk** and our website at **www.chinaorganic.com** which will provide links to the above mentioned websites of the Hong Kong Share Registrar.	No later than 11:00 p.m. on Monday, June 17, 2024 (Hong Kong time).

Platform		Date/ Time
Telephone	+852 3691 8488 – the allocation results telephone enquiry line provided by the Hong Kong Share Registrar	between 9:00 a.m. and 6:00 p.m. from Tuesday, June 18, 2024, to Friday, June 21, 2024 (Hong Kong time) on a business day

For those applying through HKSCC EIPO channel, you may also check with your broker or custodian from 6:00 p.m. on Friday, June 14, 2024 (Hong Kong time).

HKSCC Participants can log into FINI and review the allotment result from 6:00 p.m. on Friday, June 14, 2024 (Hong Kong time) on a 24-hour basis and should report any discrepancies on allotments to HKSCC as soon as practicable.

Allocation Announcement

We expect to announce the results of the final Offer Price, the level of indications of interest in the Global Offering, the level of applications in the Hong Kong Public Offer and the basis of allocations of Hong Kong Offer Shares on the Stock Exchange's website at **www.hkexnews.hk** and our website at **www.chinaorganic.com** by no later than 11:00 p.m. on Monday, June 17, 2024 (Hong Kong time).

C. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which Hong Kong Offer Shares will not be allocated to you or the person(s) for whose benefit you are applying for:

1. If your application is revoked:

Your application or the application made by HKSCC Nominees on your behalf may be revoked pursuant to Section 44A(6) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

2. If we or our agents exercise our discretion to reject your application:

We, the Sole Overall Coordinator, the Hong Kong Share Registrar and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

3. If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

4. If:

- you make multiple applications or suspected multiple applications. You may refer to the paragraph headed *"– A. Applications for Hong Kong Offer Shares – 5. Multiple Applications Prohibited"* in this section on what constitutes multiple applications;
- your application instruction is incomplete;
- your payment (or confirmation of funds, as the case may be) is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- we or the Sole Overall Coordinator believe that by accepting your application, it or we would violate applicable securities or other laws, rules or regulations.

5. If there is money settlement failure for allotted Shares:

Based on the arrangements between HKSCC Participants and HKSCC, HKSCC Participants will only be required to hold sufficient application funds on deposit with their Designated Bank before balloting. After balloting of Hong Kong Offer Shares, the banks will collect the portion of these funds required to settle each HKSCC Participant's actual Hong Kong Offer Share allotment from their Designated Bank.

There is a risk of money settlement failure. In the extreme event of money settlement failure by a HKSCC Participant (or its Designated Bank), who is acting on your behalf in settling payment for your allotted shares, HKSCC will contact the defaulting HKSCC Participant and its Designated Bank to determine the cause of failure and request such defaulting HKSCC Participant to rectify or procure to rectify the failure.

However, if it is determined that such settlement obligation cannot be met, the affected Hong Kong Offer Shares will be reallocated to the International Offering. Hong Kong Offer Shares applied by you through the broker or custodian may be affected to the extent of the settlement failure. In the extreme case, you will not be allocated any Hong Kong Offer Shares due to the money settlement failure by such HKSCC Participant. None of us, the Relevant Persons, the Hong Kong Share Registrar and HKSCC is or will be liable if Hong Kong Offer Shares are not allocated to you due to the money settlement failure.

D. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made through the HKSCC EIPO channel where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

Share certificates will only become valid at 8:00 a.m. on Tuesday, June 18, 2024 (Hong Kong time), provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.

The right is reserved to retain any Share certificate(s) and (if applicable) any surplus application monies pending clearance of application monies.

The following sets out the relevant procedures and time:

	HK eIPO White Form service	HKSCC EIPO channel
Despatch/collection of Share certificate[3]		
For application of 500,000 Hong Kong Offer Shares or more	Collection in person at at the Hong Kong Share Registrar, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong **Time:** from 9:00 a.m. to 1:00 p.m. on Tuesday, June 18, 2024 (Hong Kong time) If you are an individual, you must not authorise any other person to collect for you. If you are a corporate applicant, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. **Note:** If you do not collect your Share certificate(s) personally within the time above, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk.	Share certificate(s) will be issued in the name of HKSCC Nominees, deposited into CCASS and credited to your designated HKSCC Participant's stock account. No action by you is required.

3 Except in the event of a tropical cyclone warning signal number 8 or above, a black rainstorm warning and/or an "extreme conditions" announcement issued after a super typhoon in force in Hong Kong in the morning on Monday, June 17, 2024 rendering it impossible for the relevant Share certificates to be dispatched to HKSCC in a timely manner, the Company shall procure the Share Registrar to arrange for delivery of the supporting documents and Share certificates in accordance with the contingency arrangements as agreed between them. You may refer to *"– E. Severe Weather Arrangements"* in this section.

	HK eIPO White Form service	HKSCC EIPO channel
For application of less than 500,000 Hong Kong Offer Shares	Your Share certificate(s) will be sent to the address specified in your application instructions by ordinary post at your own risk. **Date:** Monday, June 17, 2024	
Refund mechanism for surplus application monies paid by you		
Date	Tuesday, June 18, 2024	Subject to the arrangement between you and your broker or custodian
Responsible party	Hong Kong Share Registrar	Your broker or custodian
Application monies paid through single bank account	e-Auto Refund payment instructions to your designated bank account	Your broker or custodian will arrange refund to your designated bank account subject to the arrangement between you and it.
Application monies paid through multiple bank accounts	Refund cheque(s) will be despatched to the address as specified in your application instructions by ordinary post at your own risk.	

E. SEVERE WEATHER ARRANGEMENTS

The Opening and Closing of the Application Lists

The application lists will not open or close on Thursday, June 13, 2024 if, there is:

- a tropical cyclone warning signal number 8 or above;
- a black rainstorm warning; and/or
- Extreme Conditions,

(collectively, "**Severe Weather Signals**"),

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, June 13, 2024.

Instead they will open between 11:45 a.m. and 12:00 noon and/or close at 12:00 noon on the next business day which does not have Severe Weather Signals in force at any time between 9:00 a.m. and 12:00 noon.

Prospective investors should be aware that a postponement of the opening/closing of the application lists may result in a delay in the listing date. Should there be any changes to the dates mentioned in the section headed "Expected Timetable" in this prospectus, an announcement will be made and published on the Stock Exchange's website at **www.hkexnews.hk** and our website at **www.chinaorganic.com** of the revised timetable.

If a Severe Weather Signal is hoisted on Monday, June 17, 2024, the Hong Kong Share Registrar will make appropriate arrangements for the delivery of the Share certificates to the CCASS Depository's service counter so that they would be available for trading on Tuesday, June 18, 2024.

If a Severe Weather Signal is hoisted on Monday, June 17, 2024, for application of less than 500,000 Offer Shares, the despatch of physical Share certificates will be made by ordinary post when the post office re-opens after the Severe Weather Signal is lowered or cancelled (e.g. in the afternoon of Monday, June 17, 2024 or on Tuesday, June 18, 2024).

If a Severe Weather Signal is hoisted on Tuesday, June 18, 2024, for application of 500,000 Offer Shares or more, the physical Share certificates will be available for collection in person at the Hong Kong Share Registrar's office after the Severe Weather Signal is lowered or cancelled (e.g. in the afternoon of Tuesday, June 18, 2024 or on Wednesday, June 19, 2024).

Prospective investors should be aware that if they choose to receive physical Share certificates issued in their own name, there may be a delay in receiving the Share certificates.

F. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of HKSCC and HKSCC Operational Procedures in effect from time to time.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

You should seek the advice of your broker or other professional advisor for details of the settlement arrangement as such arrangements may affect your rights and interests.

G. PERSONAL DATA

The following Personal Information Collection Statement applies to any personal data collected and held by the Company, the Hong Kong Share Registrar, the receiving banks and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. This personal data may include client identifier(s) and your identification information. By giving application instructions to HKSCC, you acknowledge that you have read, understood and agree to all of the terms of the Personal Information Collection Statement below.

1. Personal Information Collection Statement

This Personal Information Collection Statement informs the applicant for, and holder of, Hong Kong Offer Shares, of the policies and practices of the Company and the Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

2. Reasons for the collection of your personal data

It is necessary for applicants and registered holders of Hong Kong Offer Shares to ensure that personal data supplied to the Company or its agents and the Hong Kong Share Registrar is accurate and up-to-date when applying for Hong Kong Offer Shares or transferring Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data or supplying inaccurate data may result in your application for Hong Kong Offer Shares being rejected, or in the delay or the inability of the Company or the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of Hong Kong Offer Shares which you have successfully applied for and/or the despatch of Share certificate(s) to which you are entitled.

It is important that applicants for and holders of Hong Kong Offer Shares inform the Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

3. Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund cheque and e-Auto Refund payment instruction(s), where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Shares including, where applicable, HKSCC Nominees;

- maintaining or updating the register of members of the Company;
- verifying identities of applicants for and holders of the Shares and identifying any duplicate applications for the Shares;
- facilitating Hong Kong Offer Shares balloting;
- establishing benefit entitlements of holders of the Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Share Registrar to discharge their obligations to applicants and holders of the Shares and/or regulators and/or any other purposes to which applicants and holders of the Shares may from time to time agree.

4. Transfer of personal data

Personal data held by the Company and the Hong Kong Share Registrar relating to the applicants for and holders of Hong Kong Offer Shares will be kept confidential but the Company and the Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving banks and overseas principal share registrar;
- HKSCC or HKSCC Nominees, who will use the personal data and may transfer the personal data to the Hong Kong Share Registrar, in each case for the purposes of providing its services or facilities or performing its functions in accordance with its rules or procedures and operating FINI and CCASS (including where applicants for the Hong Kong Offer Shares request a deposit into CCASS);
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the Hong Kong Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations, including for the purpose of the Stock Exchange's administration of the Listing Rules and the SFC's performance of its statutory functions; and
- any persons or institutions with which the holders of Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or brokers etc.

5. Retention of personal data

The Company and the Hong Kong Share Registrar will keep the personal data of the applicants and holders of Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

6. Access to and correction of personal data

Applicants for and holders of Hong Kong Offer Shares have the right to ascertain whether the Company or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company and the Hong Kong Share Registrar, at their registered address disclosed in the section headed "Corporate information" in this prospectus or as notified from time to time, for the attention of the company secretary, or the Hong Kong Share Registrar for the attention of the privacy compliance officer.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WUHAN YOUJI HOLDINGS LTD. AND BOCOM INTERNATIONAL (ASIA) LIMITED

INTRODUCTION

We report on the historical financial information of Wuhan Youji Holdings Ltd. (the "Company", and previously known as Centelligence Holdings Ltd.) and its subsidiaries (together, the "Group") set out on pages I-3 to I-76, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2021, 2022 and 2023 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2021, 2022 and 2023 and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-76 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated June 7, 2024 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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 ("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' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 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, 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 financial position of the Group and the Company as at December 31, 2021, 2022 and 2023 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 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

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 3 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which contains information about dividends declared and paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Ernst & Young
Certified Public Accountants
Hong Kong
June 7, 2024

I. HISTORICAL FINANCIAL INFORMATION

Preparation of the Historical Financial Information

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

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	*5*	2,789,477	3,133,836	2,677,103
Cost of sales		(2,150,355)	(2,434,558)	(2,347,338)
Gross profit		639,122	699,278	329,765
Other income and gains	*5*	39,901	34,514	25,505
Selling and distribution expenses		(19,820)	(24,009)	(20,717)
Administrative expenses		(100,457)	(116,498)	(95,416)
Research and development expenses		(110,831)	(133,001)	(99,959)
Other expenses		(22,753)	(5,366)	(4,798)
Finance costs	*7*	(34,066)	(31,026)	(32,281)
Share of profits and losses of:				
Joint venture	*16*	(6,010)	(8,044)	(11,834)
Associates	*17*	8,450	11,842	4,473
PROFIT BEFORE TAX	*6*	393,536	427,690	94,738
Income tax expense	*10*	(84,399)	(87,220)	(21,836)
PROFIT FOR THE YEAR		309,137	340,470	72,902

		Year ended December 31,		
		2021	2022	2023
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Profit attributable to owners of the parent		309,137	340,470	72,902
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations		(115)	693	189
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		(115)	693	189
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		309,022	341,163	73,091
Attributable to owners of the parent		309,022	341,163	73,091
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic and diluted (RMB)	*12*	4.12	4.54	0.97

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*13*	914,604	979,143	1,020,081
Right-of-use assets	*14*	178,275	192,187	190,527
Other intangible assets	*15*	4,413	3,573	4,056
Investment in a joint venture	*16*	30,997	23,502	11,668
Investments in associates	*17*	25,655	33,306	24,272
Prepayments	*21*	28,630	60,740	32,704
Total non-current assets		1,182,574	1,292,451	1,283,308
CURRENT ASSETS				
Inventories	*19*	305,621	320,481	285,333
Trade and bills receivables	*20*	234,358	326,979	296,314
Prepayments, deposits and other receivables	*21*	1,094,852	69,301	145,367
Pledged deposits	*23*	49,504	64,675	40,127
Cash and cash equivalents	*23*	69,461	83,451	65,433
Total current assets		1,753,796	864,887	832,574
CURRENT LIABILITIES				
Trade and bills payables	*24*	196,250	171,228	149,705
Other payables and accruals	*25*	263,173	362,086	372,971
Interest-bearing bank and other borrowings	*26*	716,107	662,300	852,020
Lease liabilities	*14*	7,262	16,308	15,850
Income tax payable		45,511	6,766	32,108
Total current liabilities		1,228,303	1,218,688	1,422,654
NET CURRENT ASSETS/(LIABILITIES)		525,493	(353,801)	(590,080)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,708,067	938,650	693,228

		As at December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	*26*	–	72,000	65,500
Government grants	*27*	39,950	49,026	45,740
Lease liabilities	*14*	23,091	30,527	11,740
Deferred tax liabilities	*28*	124,708	60,990	40,631
Total non-current liabilities		187,749	212,543	163,611
NET ASSETS		1,520,318	726,107	529,617
EQUITY				
Equity attributable to owners of the parent:				
Share capital	*29*	339	48	48
Reserves	*31*	1,519,979	726,059	529,569
TOTAL EQUITY		1,520,318	726,107	529,617

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2021

	Attributable to owners of the parent						
	Share capital	Merger reserve	Other reserves	Statutory reserve	Retained profits	Exchange fluctuation reserve	Total equity
	RMB'000 *(note 29)*	*RMB'000* *(note 31)*	*RMB'000* *(note 31)*	*RMB'000* *(note 31)*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2021	339	64,802	–	68,712	1,077,198	(174)	1,210,877
Profit for the year	–	–	–	–	309,137	–	309,137
Other comprehensive loss for the year:							
Exchange differences related to foreign operations	–	–	–	–	–	(115)	(115)
Total comprehensive income/(loss) for the year	–	–	–	–	309,137	(115)	309,022
Share award scheme arrangements *(note 30)*	–	–	419	–	–	–	419
At December 31, 2021	339	64,802*	419*	68,712*	1,386,335*	(289)*	1,520,318

Year ended December 31, 2022

	Attributable to owners of the parent							
	Share capital	Merger reserve	Capital reserve	Other reserves	Statutory reserve	Retained profits	Exchange fluctuation reserve	Total equity
	RMB'000 *(note 29)*	*RMB'000* *(note 31)*	*RMB'000* *(note 31)*	*RMB'000* *(note 31)*	*RMB'000* *(note 31)*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2022	339	64,802	–	419	68,712	1,386,335	(289)	1,520,318
Profit for the year	–	–	–	–	–	340,470	–	340,470
Other comprehensive income for the year:								
Exchange differences related to foreign operations	–	–	–	–	–	–	693	693
Total comprehensive income for the year	–	–	–	–	–	340,470	693	341,163
Repurchase of shares *(note 29)*	(339)	–	(32,670)	–	–	–	–	(33,009)
Issue of shares *(note 29)*	48	–	–	–	–	–	–	48
Dividend distributions *(note 11)*	–	–	–	–	–	(1,102,832)	–	(1,102,832)
Share award scheme arrangements *(note 30)*	–	–	–	419	–	–	–	419
At December 31, 2022	48	64,802*	(32,670)*	838*	68,712*	623,973	404*	726,107

Year ended December 31, 2023

	Attributable to owners of the parent							
	Share capital	Merger reserve	Capital reserve	Other reserves	Statutory reserve	Retained profits	Exchange fluctuation reserve	Total equity
	RMB'000 *(note 29)*	*RMB'000* *(note 31)*	*RMB'000* *(note 31)*	*RMB'000* *(note 31)*	*RMB'000* *(note 31)*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2023	48	64,802	(32,670)	838	68,712	623,973	404	726,107
Profit for the year	–	–	–	–	–	72,902	–	72,902
Other comprehensive income for the year:								
Exchange differences related to foreign operations	–	–	–	–	–	–	189	189
Total comprehensive income for the year	–	–	–	–	–	72,092	189	73,091
Dividend distributions *(note 11)*	–	–	–	–	–	(270,000)	–	(270,000)
Share award scheme arrangements *(note 30)*	–	–	–	419	–	–	–	419
At December 31, 2023	48	64,802*	(32,670)*	1,257*	68,712*	426,875*	593*	529,617

* These reserve accounts comprise the consolidated reserves of RMB1,519,979,000, RMB726,059,000 and RMB529,569,000 as at December 31, 2021, 2022 and 2023, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		393,536	427,690	94,738
Adjustments for:				
Finance costs	*7*	34,066	31,026	32,281
Interest income	*5*	(19,295)	(5,632)	(3,310)
Depreciation of property, plant and equipment	*13*	93,697	99,123	111,198
Depreciation of right-of-use assets	*14*	9,743	18,592	19,809
Amortisation of other intangible assets	*15*	1,015	963	978
Share award scheme expenses	*30*	419	419	419
Loss/(gain) on disposal of property, plant and equipment and lease modification	*5, 6*	15,174	271	(84)
Income from government grants related to assets	*5, 27*	(3,230)	(4,570)	(5,353)
Share of loss of a joint venture	*16*	6,010	8,044	11,834
Share of profits of associates	*17*	(8,450)	(11,842)	(4,473)
Write-down of inventories	*6*	–	–	1,764
Impairment/(reversal of impairment) of trade receivables	*20*	184	314	(188)
Impairment of construction in progress	*13*	–	–	2,538
		522,869	564,398	262,151
Decrease/(increase) in inventories		(189,491)	(14,860)	33,384
Increase in trade and bills receivables		(264,323)	(205,084)	(90,972)
Decrease/(increase) in prepayments, deposits and other receivables		(34,486)	36,886	(11,985)
Increase/(decrease) in contract liabilities		19,345	(21,403)	7,677
Increase/(decrease) in trade and bills payables		75,188	(24,882)	(21,523)
Increase/(decrease) in other payables and accruals		13,540	8,682	(6,604)
Cash generated from operations		142,642	343,737	172,128
Income taxes paid		(18,409)	(195,375)	(11,599)
Net cash generated from operating activities		124,233	148,362	160,529

		Year ended December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(51,315)	(61,603)	(34,341)
Investment in a fund		–	–	(30,500)
Withdrawal of investment in a fund		–	–	20,000
Prepayment for leasehold land		–	(21,350)	–
Additions to right-of-use assets	*14*	(51,258)	(102)	(646)
Additions to other intangible assets	*15*	–	(123)	(1,461)
Interest received from bank deposits		1,775	1,312	2,278
Loans to related parties	*32(a) 36(b)*	(433,137)	(53,845)	–
Loans to a joint venture	*36(b)*	–	–	(50,955)
Received from loans to related parties	*36(b)*	286,466	171,464	205
Proceeds from disposal of property, plant and equipment		59	4	–
Dividend received from associates	*17*	4,256	–	13,522
Receipt of government grants for acquisition of assets	*27*	6,430	13,646	2,067
Proceeds from liquidation of an associate	*17*	–	4,501	–
Net cash flows (used in)/from investing activities		(236,724)	53,904	(79,831)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments for transaction costs for the issue of shares		(2,016)	(4,790)	(2,982)
Interest paid	*32(b)*	(32,379)	(28,630)	(30,356)
Proceeds from interest-bearing bank loans and other borrowings		937,837	850,147	989,020
Repayment of bank loans and other borrowings		(780,073)	(831,954)	(805,800)
Lease payments (including related interest)	*14*	(8,123)	(18,316)	(17,242)
Placement of pledged bank deposits		(109,532)	(84,695)	(56,780)
Withdrawal of pledged bank deposits		133,999	69,524	81,328
Dividends paid		–	(103,700)	(256,093)
Payment for the share repurchase	*29*	–	(36,555)	–

		Year ended December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Net cash flows (used in)/from financing activities		139,713	(188,969)	(98,905)
NET INCREASE IN CASH AND CASH EQUIVALENTS		27,222	13,297	(18,207)
Cash and cash equivalents at beginning of year		42,354	69,461	83,451
Effect of foreign exchange rate changes		(115)	693	189
CASH AND CASH EQUIVALENTS AT END OF YEAR	*23*	69,461	83,451	65,433
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		69,461	83,451	65,433

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Investment in a subsidiary	*18*	431,724	431,724	431,724
CURRENT ASSETS				
Cash and cash equivalents		–	283	267
Amount due from a subsidiary	*21*	–	113,170	127,077
Prepayments, deposits and other receivables	*21*	3,410	9,066	9,909
Total current assets		3,410	122,519	137,253
CURRENT LIABILITIES				
Dividend payable	*25*	–	113,170	127,077
Amounts due to subsidiaries	*25*	11,250	31,401	42,379
Total current liabilities		11,250	144,571	169,456
NET CURRENT LIABILITIES		(7,840)	(22,052)	(32,203)
NET ASSETS		423,884	409,672	399,521
EQUITY				
Share capital	*29*	339	48	48
Retained earnings/ (accumulated losses)	*31*	(7,840)	10,909	758
Capital reserve	*31*	431,385	398,715	398,715
TOTAL EQUITY		423,884	409,672	399,521

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

Wuhan Youji Holdings Ltd. was incorporated in the Cayman Islands as an exempted company with limited liability on September 23, 2016. The registered address of the office of the Company is PO Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands. The principal place of business of the Company is 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

The Company is an investment holding company. During the Relevant Periods, the major subsidiaries of the Company were principally engaged in the manufacturing and sales of products from the oxidation, chlorinating process of toluene, and ammonification process of benzoic acid in the People's Republic of China (the "PRC").

In the opinion of the directors of the Company, Cougar Holdings Limited ("Cougar Holdings") was the then ultimate holding company of the Company at December 31, 2020 and 2021, and Vastocean Capital Limited was the ultimate holding company of the Company at December 31, 2022 and 2023.

Information about subsidiaries

As of the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (if incorporated outside Hong Kong have substantially similar characteristics to a private company), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Centelligence Holdings Limited. *(Note a)*	British Virgin Islands ("BVI") September 27, 2016	United States Dollars ("USD") 50 thousand	100%	–	Investment-holding
Centelligence International Holdings Limited *(Note e)*	Hong Kong November 4, 2016	USD59.58 million	–	100%	Investment-holding
Wuhan International Holding I Limited *(Note a)*	BVI May 26, 2016	USD50 thousand	–	100%	Investment-holding
Wuhan International Holding II Limited *(Note a)*	BVI May 26, 2016	USD50 thousand	–	100%	Investment-holding
Wuhan Youji Industries Co., Ltd.* ("Wuhan Youji") *(Note b and c)* 武漢有機實業有限公司	The PRC/Mainland China January 12, 1990	RMB55.84 million	–	100%	Toluene organic manufacturing
Qianjiang Xinyihong Organic Chemical Co., Ltd.* *(Note b and d)* 潛江新億宏有機化工有限公司	The PRC/Mainland China December 5, 2006	RMB30 million	–	100%	Toluene organic manufacturing
Hubei Kangxin Chemical Trading Co., Ltd.* *(Note a and d)* 湖北康新化工貿易有限責任公司	The PRC/Mainland China December 12, 2018	RMB50 million	–	100%	Toluene trading

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hubei Xinxuanhong New Materials Co., Ltd.* *(Notes a and d)* 湖北新軒宏新材料有限公司	The PRC/Mainland China January 5, 2021	RMB50 million	–	100%	Toluene organic manufacturing
Hubei Xinlianhong New Materials Technology Co.,Ltd.* *(Notes a and d)* 湖北新連宏新材料科技有限公司	The PRC/Mainland China November 28, 2022	RMB20 million	–	100%	Toluene organic research & development
Wuhan Youji (Hong Kong) Co., Limited* *(Note e)* 武漢有機(香港)有限公司	Hong Kong June 10, 2016	Hong Kong Dollars ("HKD") 10 thousand	–	100%	Product trading

(a) No audited financial statements have been prepared for these entities since their date of incorporation or registration as they are not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation or registration.

(b) The statutory financial statements of the entities for the years ended December 31, 2021 and 2022 prepared under the PRC Generally Accepted Accounting Principles were audited by Hubei Gongxin Certified Public Accountants Co., Ltd. (湖北公信會計師事務有限公司), a certified public accountant registered in the PRC.

(c) Wuhan Youji is registered as a wholly-foreign-owned enterprise under the laws of the PRC.

(d) Qianjiang Xinyihong Organic Chemical Co., Ltd. (潛江新億宏有機化工有限公司), Hubei Kangxin Chemical Trading Co., Ltd. (湖北康新化工貿易有限責任公司), Hubei Xinxuanhong New Materials Co., Ltd. (湖北新軒宏新材料有限公司), Hubei Xinlianhong New Materials Technology Co.,Ltd. (湖北新連宏新材料科技有限公司) are limited liability companies established under the laws of the PRC.

(e) The statutory financial statements of these entities for the year ended December 31, 2020 and 2021 prepared in accordance with Hong Kong Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") were audited by G&H CPA Limited (港浩會計師事務所有限公司), a certified public accountant registered in Hong Kong.

The statutory financial statements of these entities for the year ended December 31, 2022 prepared in accordance with SME-FRS were audited by SINNO INTERNATIONAL CPA LIMITED (信諾中創國際會計師有限公司), a certified public accountant registered in Hong Kong.

* The English names of these subsidiaries registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as these subsidiaries do not have official English names.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from January 1, 2023, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention except for bills receivable and investment in a fund which have been measured at fair value at the end of each of the Relevant Periods.

Basis of going concern assumption

Despite that the Group had net current liabilities of approximately RMB590 million and capital commitments of approximately RMB43 million as at December 31, 2023, the directors of the Company is of the opinion that the Group will have adequate funds available to enable it to operate as a going concern after taking into account the historical operating performance and future forecasted operating cash inflow of the Group and its available credit facilities of approximately RMB712 million to meet its financial obligations as they fall due for the following twelve months. Accordingly, this Historical Financial Information has been prepared on the going concern basis.

Basis of consolidation

The Historical Financial Information includes the financial information of the Company and its subsidiaries (collectively referred to as the "Group") for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following revised HKFRSs that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[1,3]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[1, 3]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*[1]
Amendments to HKAS 21	*Lack of Exchangeability*[4]

[1] Effective for annual periods beginning on or after January 1, 2024
[2] No mandatory effective date yet determined but available for adoption
[3] As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion
[4] Effective for annual periods beginning on or after January 1, 2025

The Group is in the process of making a detailed assessment of the impact of these revised HKFRSs upon initial application. So far, the Group considers that these revised HKFRSs may result in changes in certain accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position in the period of initial application.

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

Investment in a subsidiary

In the Company's statements of financial position, an investment in a subsidiary is stated at cost less any impairment losses unless the investment is classified as held for sale (or included in a disposal group) and accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Dividends from a subsidiary are recognized in the Company's profit or loss when the Company's right to receive the dividends is established.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5.

Fair value measurement

The Group measures its bills receivables and investment in a fund at fair value at the end of each of the reporting periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the reporting periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, inventories and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same Group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

Buildings	3.2 %-9.5%
Plant and machinery	7.9%-47.5%
Furniture and fixtures	9.5%-23.8%
Motor vehicles	19.0%-23.8%

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

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

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and licenses

Purchased patents and licenses are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 years. The estimated useful life of intangible assets is determined by considering the period of the economic benefits to the Group and period of validity protected by the relevant laws.

Software

Software is stated at cost less any impairment loss and is amortised on the straight-line basis over its estimated useful life of 10 years, which is determined based on the expected technological lives of the software.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	5-50 years
Buildings	2.6-5 years
Storage tanks	3-7 years
Motor vehicles	3-5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 *Revenue from Contracts with Customers* in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortized cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss.

This category includes derivative instrument and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are recognized as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 30-90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below:

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of liabilities at amortised cost, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortized cost

After initial recognition, interest-bearing loans and borrowings and payables are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

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

Cash and cash equivalents

Cash and cash equivalents in the statements of financial positions comprise cash on hand and at banks, and short-term demand deposits, which are subject to an insignificant risk of changes in value and held for the purpose of meeting short term cash commitments.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and at banks, as defined above, less any bank overdrafts, which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of each of the reporting periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and does not give rise to equal taxable and deductible temporary differences;

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and does not give rise to equal taxable and deductible temporary differences;

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each Relevant Periods and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. When the grant relates to expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future costs and obligations, it is recognized in profit or loss in the period in which it becomes receivable.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method.

For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of industrial products

Revenue from the sale of industrial products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other income

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

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

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Entrusted processing services income is recognized when the products entrusted for processing are delivered to the customer.

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Group operates a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using the discounted cash flow method.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. The Group's employee contributions vest fully with the employees when contributed into the scheme and there are no forfeited contributions that may be used by the Group.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the Historical Financial Information.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information is presented in Renminbi (RMB), which is the Company's functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the reporting periods. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liabilities relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liabilities arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each reporting period and their profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for each of the reporting periods.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the Historical Financial Information.

Provision for expected credit losses on other receivables

The Group estimates the provision for ECLs on other receivables based on the historical loss record and adjusts for forward-looking information. When assessing the loss given default, the Group also considers the financial capability of the debtors and future prospects of the industry in which the debtors operate. The assessment of the debtors' financial capability and estimates of future prospects of the industry and economic conditions involved significant management judgment and estimation.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

4. OPERATING SEGMENT INFORMATION

Operating Segment information

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of the resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical Information

(a) Details of the revenue from external customers by geographical market are included in note 5 to the Historical Financial information.

(b) Non-current assets

As at the end of each of the Relevant Periods, all of the Group's non-current assets were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8.

Information about a major customer

Revenue from a major external customer is as follows:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	378,914	N/A*	N/A*

* less than 10% of the Group's revenue.

5. REVENUE AND OTHER INCOME AND GAINS

Revenue from contracts with customers

An analysis of revenue is as follows:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers	2,789,477	3,133,836	2,677,103

(a) Disaggregated revenue information

Types of goods or services	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Sale of industrial products	2,789,477	3,133,836	2,677,103

Geographical markets	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Mainland China	2,171,112	2,452,017	2,060,003
Asia (except Mainland China)	262,513	308,110	287,508
America	212,821	159,116	135,882
Europe	119,477	185,654	175,848
Other countries/regions	23,554	28,939	17,862
Total revenue from contracts with customers	2,789,477	3,133,836	2,677,103

The revenue information above is based on the locations of the customers.

Timing of revenue recognition	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Goods transferred at a point in time	2,789,477	3,133,836	2,677,103

For the years ended December 31, 2021, 2022 and 2023, the amounts of revenue from sale of industrial products of RMB44,977,000, and RMB64,322,000, RMB42,919,000, respectively, were recognized that were included in the contract liabilities at the beginning of each of the Relevant Periods.

(b) Performance obligations

Information about the Group's performance obligations is summarized below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 120 days from delivery, where payment in advance is normally required.

As the remaining performance obligations (unsatisfied or partially satisfied) as at December 31, 2021, 2022 and 2023 are part of contracts that have an original expected duration of one year or less, the transaction price allocated to them is not separately disclosed, as permitted by the practical expedient as required by HKFRS 15.

Other income and gains

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Other income			
Interest income	19,295	5,632	3,310
Government grants related to income*	3,882	12,447	6,425
Government grants related to assets** *(note 27)*	3,230	4,570	5,353
Sundry income	10,767	6,009	2,669
Entrusted processing service income	959	1,248	1,398
Rental income – fixed lease payments *(note 14)*	1,562	1,774	1,774
Gain on disposal of items of property, plant and equipment	–	–	3
Gain on lease modification	–	–	81
Other gains			
Foreign exchange differences, net	–	2,268	3,617
Others	206	566	875
	39,901	34,514	25,505

* The government grants represent subsidies received from the local governments for the purpose of compensation of expenses incurred by the Group, including foreign trade development, land use tax, research, off-peak electricity consumption, and certain employee related costs.

** Government grants related to assets are those received for purchase of assets. If the related capital expenditure has not yet been undertaken, the grants received are included in government grants in the consolidated statements of financial position. For those grants for which capital expenditures have been undertaken, the amounts received are released to profit or loss over the expected useful lives of the relevant assets. There are no unfulfilled conditions or contingencies relating to these grants (note 27).

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of inventories sold		2,150,355	2,434,558	2,347,338
Research and development costs (current year expenditures)		110,831	133,001	99,959
Depreciation of property, plant and equipment	*13*	93,697	99,123	111,198
Amortization of other intangible assets*	*15*	1,015	963	978
Depreciation of right-of-use assets	*14*	9,743	18,592	19,809
Write-down of inventories to net realizable value		–	–	1,764
Loss/(gain) on disposal of items of property, plant and equipment, net		15,174	271	(3)
Gain on lease modification		–	–	(81)
Impairment/reversal of impairment of trade receivables	*20*	184	314	(188)
Foreign exchange differences, net		2,930	(2,268)	(3,617)
Auditor's remuneration		129	137	151
Listing expenses		7,840	14,371	10,118
Employee benefit expense (including directors' emoluments):				
Salaries, allowances and benefits in kind		69,748	81,553	66,117
Share award scheme expenses	*30*	419	419	419
Performance-based bonuses		15,666	11,643	–
Pension scheme contributions**		12,672	16,052	15,753
		98,505	109,667	82,289

* The amortization of other intangible assets for each of the Relevant Periods is included in "Administrative expenses" in profit or loss.

** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

An analysis of finance costs is as follows:

		Year ended December 31,		
		2021	2022	2023
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Interest on bank and other borrowings		30,894	27,832	30,267
Interest on discounted bills		1,485	798	89
Interest on lease liabilities	*14*	1,687	2,396	1,925
		34,066	31,026	32,281

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration as recorded in each of the Relevant Periods, disclosed pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is set out below:

An executive director and a chief executive of the Company received remuneration from a subsidiary of the Company during each of the Relevant Periods prior to their appointment as a director and chief executive of the Company. The remuneration of them is included in the Historical Financial Information as follows:

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	3,314	3,717	3,811
Performance-based bonuses*	4,700	5,317	–
Equity-settled share award expenses	88	88	29
Pension scheme contributions	180	180	108
	8,282	9,302	4,007

* Certain executive directors of the Company were entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

(a) Independent non-executive directors

The Company did not have any independent non-executive directors at any time before December 31, 2023.

(b) Executive directors, non-executive directors and the chief executive

Year ended December 31, 2021

	Fees	Salaries, allowances, and benefits in kind	Equity-settled share award expenses	Performance-based bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Mr. Zou Xiaohong *(note (i))*	–	1,271	25	2,200	–	3,496
Mr. Chen Ping *(note (ii))*	–	511	14	300	90	915
	–	1,782	39	2,500	90	4,411
Non-executive directors:						
Mr. Gao Lei *(note (iii))*	–	–	–	–	–	–
Mr. Shen Yingming *(note (iv))*	–	–	24	–	–	24
	–	–	24	–	–	24
Chief executive:						
Mr. Zhou Xu *(note (v))*	–	1,532	25	2,200	90	3,847
	–	3,314	88	4,700	180	8,282

Year ended December 31, 2022

	Fees	Salaries, allowances and benefits in kind	Equity-settled share award expenses	Performance-based bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Mr. Zou Xiaohong *(note (i))*	–	1,358	25	2,489	–	3,872
Mr. Chen Ping *(note (ii))*	–	743	14	339	78	1,174
	–	2,101	39	2,828	78	5,046
Non-executive directors:						
Mr. Gao Lei *(note (iii))*	–	–	–	–	–	–
Mr. Shen Yingming *(note (iv))*	–	–	24	–	–	24
Ms. Li Deye *(note (vi))*	–	–	–	–	–	–
	–	–	24	–	–	24
Chief executive:						
Mr. Zhou Xu *(note (v))*	–	1,616	25	2,489	102	4,232
	–	3,717	88	5,317	180	9,302

Year ended December 31, 2023

	Fees	Salaries, allowances and benefits in kind	Equity-settled share award expenses	Performance-based bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Mr. Zou Xiaohong *(note (i))*	–	1,464	25	–	–	1,488
Mr. Chen Ping *(note (ii))*	–	919	14	–	–	933
	–	2,382	39	–	–	2,421
Non-executive directors:						
Mr. Gao Lei *(note (iii))*	–	–	–	–	–	–
Mr. Shen Yingming *(note (iv))*	–	–	24	–	–	24
Ms. Li Deye *(note (vi))*	–	–	–	–	–	–
	–	–	24	–	–	24
Chief executive:						
Mr. Zhou Xu *(note (v))*	–	1,429	25	–	108	1,562
	–	3,811	88	–	108	4,007

(i) Mr. Zou Xiaohong was appointed as an executive director of the Company on March 25, 2022.

(ii) Mr. Chen Ping was appointed as an executive director of the Company on September 23, 2016.

(iii) Mr. Gao Lei was appointed as a non-executive director of the Company on September 23, 2016.

(iv) Mr. Shen Yingming was appointed as a non-executive director of the Company on September 23, 2016.

(v) Mr. Zhou Xu was appointed as the chief executive of the Company on March 25, 2022.

(vi) Ms. Li Deye was appointed as a non-executive director of the Company on March 25, 2022.

During the Relevant Periods, no remuneration was paid or payable by the Group to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for the loss of office.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended December 31, 2021, 2022 and 2023 included two, two and three directors and chief executive, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining three, three and two highest paid employees who are neither a director nor chief executive of the Company during the years ended December 31, 2021, 2022 and 2023 are as follows:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	1,489	1,963	1,413
Performance-based bonuses	2,400	2,716	–
Equity-settled share award expenses	41	41	41
Pension scheme contributions	270	307	217
	4,200	5,027	1,671

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees		
	Year ended December 31,		
	2021	**2022**	**2023**
HK$ nil to HK$1,000,000	–	–	1
HK$1,000,001 to HK$1,500,000	3	3	1

There was no emolument paid by the Group to any of the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of office during the Relevant Periods.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Current – Hong Kong	283	129	89
Current – Mainland China	47,453	32,984	12,106
Current – Withholding Tax	–	117,825	30,000
Deferred *(note 28)*	36,663	(63,718)	(20,359)
Total tax charge	84,399	87,220	21,836

Cayman Islands and British Virgin Islands

Under the current tax laws of the Cayman Islands and British Virgin Islands, the Company and its subsidiaries incorporated in Cayman Islands and BVI are not subject to tax on income or capital gains.

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during each of the Relevant Periods, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Mainland China

The provision for corporate income tax in Mainland China is based on the statutory rate of 25% of the taxable profits determined in accordance with the PRC Corporate Income Tax Law, except for Wuhan Youji Industries Co., Ltd. and Qianjiang Xinyihong Organic Chemical Co., Ltd., which were qualified as a High and New Technology Enterprise to enjoy a preferential income tax rate of 15% for each of the Relevant Periods.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the country or jurisdictions in which the Group are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	393,536	427,690	94,738
Tax charged at the statutory tax rates	98,316	111,282	26,808
Preferential tax rate reduction	(39,268)	(46,586)	(10,835)
Profits and losses attributable to a joint venture and associates	(610)	(950)	1,840
Expenses not deductible for tax purpose	188	452	233
Additional tax deduction for research and development expenses	(8,540)	(16,780)	(5,489)
Withholding tax on undistributed profits of subsidiaries in Mainland China*	34,396	39,802	9,279
Others	(83)	–	–
Tax charge at the Group's effective rate	84,399	87,220	21,836

* Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

At December 31, 2021, 2022 and 2023, deferred tax liabilities have been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. The current withholding tax for the year ended December 31, 2022 and 2023 represents the income tax payable for the dividends distribution of a subsidiary of the Group in Mainland China to its shareholders in BVI.

11. DIVIDENDS

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Final dividends declared	–	1,102,832	270,000

On February 28, 2022, dividends of RMB1,048,975,210 were declared by a wholly-owned subsidiary, Centelligence Holdings Limited to the Company. On the same day, the directors of the Company passed two resolutions for the distribution of dividends of RMB1,012,975,210 to its sole shareholder, Cougar International Growth Holding II Ltd. ("Cougar International"), and on the same day, the directors of Cougar International passed two resolutions for the distribution of dividends with the same amount to its sole shareholder Cougar Holdings. Cougar Holdings' shareholders then passed two resolutions for the distribution of dividends of RMB1,012,975,210 to its shareholders including Mr. Gao Lei, Mr. Shen Yingming, Wuhan Linuo Investment, Holdings Group Co., Ltd. ("Linuo Investment"), an entity controlled by Mr. Gao Yuankun, Wuhan Youji Employee Trust and Hubei Tuopu Organic and Phosphoric Chemicals Import & Export Co., Ltd.

Based on an agreement entered into by Cougar Holdings, Mr. Gao Lei, Mr. Shen Yingming, Linuo Investment, Linuo Group Holdings Co., Ltd. ("Linuo Group"), an entity controlled by Mr. Gao Yuankun, Wuhan Youji Employee Trust and Wuhan Youji on March 31, 2022, it was agreed that dividends of RMB820,026,606 declared by Cougar Holdings attributable to Mr. Gao Lei, Mr. Shen Yingming and Linuo Investment were used to offset the Group's receivables due from Linuo Group and Linuo Investment.

On August 3, 2022, dividends of USD7,500 (equivalent to RMB50,860) were declared by the Company. Based on the distribution agreement, it was agreed that dividends of USD5,465, USD727, USD1,254, and USD54 were used to set-off the subscription price of the issuance of 75,000,000 ordinary shares (note 12) to Vastocean Capital Limited, Custodian Capital Ltd., SYM Holdings Limited and Fullfaith Capital Limited, respectively.

On December 28, 2022, dividends of RMB89,807,559 were declared by a wholly-owned subsidiary, Centelligence Holdings Limited to the Company. On the same day, the directors of the Company passed a resolution for the distribution of dividends of RMB89,807,559 to its shareholders including Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Fullfaith Capital Limited, NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd. of RMB60,052,329, RMB15,013,082, RMB8,707,080, RMB646,614, RMB1,963,173, RMB1,963,840, and RMB1,461,441, respectively.

Based on an agreement entered into by Wuhan Youji Holdings Ltd, Mr. Gao Lei, Mr. Shen Yingming, Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Linuo Investment, Linuo Group and Wuhan Youji Industries Co., Ltd. on December 28, 2022, it was agreed that dividends of RMB65,886,529 declared by the Company attributable to Mr. Gao Lei and Mr. Shen Yingming were used to offset the Group's receivables due from Linuo Group and Linuo Investment.

On December 31, 2023, dividends of RMB270,000,000 were declared by a wholly-owned subsidiary, Centelligence Holdings Limited to the Company. On the same day, the directors of the Company passed a resolution for the distribution of dividends of RMB270,000,000 to its shareholders including Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Fullfaith Capital Limited, NovaVision Holdings I Ltd, NovaVision Holdings II Ltd and NovaVision Holdings III Ltd of RMB180,543,031, RMB45,135,756, RMB26,177,213, RMB1,944,000, RMB5,902,139, RMB5,904,144, and RMB4,393,717, respectively.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for each of the Relevant Periods attributable to ordinary equity holders of the parent. On March 7, 2022, the Company carried out a 1-to-10,000 share subdivision whereby the authorized and issued number of ordinary shares of the Company became 500,000,000 with a par value of US$0.0001. On the same day, after the repurchase and issuance of ordinary shares as disclosed in note 29, the issued number of ordinary shares of the Company became 75,000,000 with a par value of US$0.0001. The weighted average number of ordinary shares was calculated based on the assumption that the share subdivision and consolidation on March 7, 2022 had been completed at the beginning of the Relevant Periods.

The Group had no potentially dilutive ordinary shares in issue during each of the Relevant Periods.

The calculations of basic and diluted earnings per share are based on:

	Year ended December 31,		
	2021	2022	2023
Earnings			
Profit attributable to ordinary equity holders of the parent *(RMB'000)*	309,137	340,470	72,902
Shares			
Weighted average number of ordinary shares in issue during the year in the basic and diluted earnings per share calculation	75,000,000	75,000,000	75,000,000
Earnings per share (basic and diluted), RMB per share	4.12	4.54	0.97

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2021:						
Cost	354,405	724,222	7,345	4,622	70,662	1,161,256
Accumulated depreciation	(76,095)	(204,525)	(4,091)	(4,240)	–	(288,951)
Net carrying amount	278,310	519,697	3,254	382	70,662	872,305
At January 1, 2021, net of accumulated depreciation	278,310	519,697	3,254	382	70,662	872,305
Additions	–	2,003	157	152	150,714	153,026
Depreciation provided during the year	(16,661)	(75,713)	(1,219)	(104)	–	(93,697)
Transfers	–	44,128	236	–	(44,364)	–
Disposals	–	(17,024)	(3)	(3)	–	(17,030)
At December 31, 2021, net of accumulated depreciation	261,649	473,091	2,425	427	177,012	914,604
At December 31, 2021:						
Cost	354,405	735,891	7,669	4,716	177,012	1,279,693
Accumulated depreciation	(92,756)	(262,800)	(5,244)	(4,289)	–	(365,089)
Net carrying amount	261,649	473,091	2,425	427	177,012	914,604

	Buildings	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2022:						
Cost	354,405	735,891	7,669	4,716	177,012	1,279,693
Accumulated depreciation	(92,756)	(262,800)	(5,244)	(4,289)	–	(365,089)
Net carrying amount	261,649	473,091	2,425	427	177,012	914,604
At January 1, 2022, net of accumulated depreciation	261,649	473,091	2,425	427	177,012	914,604
Additions	–	1,477	678	647	161,316	164,118
Depreciation provided during the year	(16,809)	(81,512)	(680)	(122)	–	(99,123)
Transfers	10,183	219,260	–	–	(229,443)	–
Disposals	–	(440)	–	(16)	–	(456)
At December 31, 2022, net of accumulated depreciation	255,023	611,876	2,423	936	108,885	979,143
At December 31, 2022:						
Cost	364,588	955,866	8,347	5,048	108,885	1,442,734
Accumulated depreciation	(109,565)	(343,990)	(5,924)	(4,112)	–	(463,591)
Net carrying amount	255,023	611,876	2,423	936	108,885	979,143
At January 1, 2023:						
Cost	364,588	955,866	8,347	5,048	108,885	1,442,734
Accumulated depreciation	(109,565)	(343,990)	(5,924)	(4,112)	–	(463,591)
Net carrying amount	255,023	611,876	2,423	936	108,885	979,143
At January 1, 2023, net of accumulated depreciation	255,023	611,876	2,423	936	108,885	979,143
Additions	906	403	689	398	161,226	163,622
Depreciation provided during the year	(17,310)	(93,104)	(616)	(168)	–	(111,198)
Impairment*	–	–	–	–	(2,538)	(2,538)
Transfers	47,742	66,600	274	–	(114,616)	–
Disposals	–	–	–	(20)	(8,928)	(8,948)
At December 31, 2023, net of accumulated depreciation	286,361	585,775	2,770	1,146	144,029	1,020,081
At December 31, 2023:						
Cost	413,236	1,022,869	9,310	5,058	146,567	1,597,040
Accumulated depreciation and impairment	(126,875)	(437,094)	(6,540)	(3,912)	(2,538)	(576,959)
Net carrying amount	286,361	585,775	2,770	1,146	144,029	1,020,081

At December 31, 2021, certain of the Group's plant and machinery with a net carrying amount of approximately RMB240,435,000, respectively, were pledged to secure the Group's bank loans (note 26).

At December 31, 2022 and 2023, certain of the Group's buildings with an aggregate carrying amount of RMB139,731,000 and RMB130,554,000 were pledged to secure the Group's bank loans and other borrowings (note 26).

* During the year ended December 31, 2023, the construction of the Group's Wuhan production plant for hydrogenation production line was ceased due to geographical conditions. Certain assets of this hydrogenation production line at Wuhan could not be used anymore. Management of the Group assessed the recoverable amounts of the related idle assets, and a full impairment of RMB2,538,000 was made accordingly.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land use rights, buildings, toluene storage tanks and motor vehicles used in its operations. Lump sum payments were made upfront to acquire certain leased land from the owners with lease terms of 50 years, and no ongoing payments will be made under the terms of these land leases. The lease term of other lease land is 5 years with annual lease payment to be made during the lease term. Except for lease arrangements with Linuo Investment, a related entity as disclosed in note 36(e)(ii) to the Historical Financial Information, leases of buildings (including factories and warehouses) generally have lease terms between 2.6 and 5 years, while those of toluene storage tanks generally have lease terms between 3 and 7 years. Motor vehicles have lease terms between 3 and 5 years. Other equipment generally has lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Leasehold land	Buildings	Storage tanks	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2021	101,491	7,987	20,905	1,368	131,751
Additions	51,258	–	4,075	934	56,267
Depreciation charge	(2,840)	(1,807)	(4,440)	(656)	(9,743)
As at December 31, 2021 and January 1, 2022	149,909	6,180	20,540	1,646	178,275
Additions	12,563	19,941	–	–	32,504
Depreciation charge	(4,687)	(8,310)	(4,807)	(788)	(18,592)
As at December 31, 2022 and January 1, 2023	157,785	17,811	15,733	858	192,187
Additions	21,996	–	–	115	22,111
Depreciation charge	(5,932)	(8,525)	(4,749)	(603)	(19,809)
Lease modification	(3,962)	–	–	–	(3,962)
As at December 31, 2023	169,887	9,286	10,984	370	190,527

At December 31, 2021 and 2022 and 2023, certain of the Group's leasehold land with a net carrying amount of approximately RMB94,570,000, RMB143,339,000 and RMB139,971,000, respectively, were pledged to secure the Group's bank loans and other borrowings (note 26).

(b) Lease liabilities

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at beginning of year	31,780	30,353	46,835
New leases	5,009	32,402	115
Accretion of interest recognized during the year	1,687	2,396	1,925
Payments	(8,123)	(18,316)	(17,242)
Lease modification	–	–	(4,043)
Carrying amount at end of year	30,353	46,835	27,590
Analyzed into:			
– Current portion	7,262	16,308	15,850
– Non-current portion	23,091	30,527	11,740

The maturity analysis of lease liabilities is as follows:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	7,262	16,308	15,850
After one year but within two years	7,337	16,826	7,973
After two years but within five years	15,754	13,701	3,767
	30,353	46,835	27,590

(c) The amounts recognized in profit or loss in relation to leases are as follows:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Interest on lease liabilities *(note 7)*	1,687	2,396	1,925
Depreciation charge of right-of-use assets *(note 6)*	9,743	18,592	19,809
Expenses relating to short-term leases	2,449	–	4
Gain on lease modification	–	–	(81)
Variable lease payments not included in the measurement of lease liabilities (included in cost of sales)	589	2,088	–
Total amount recognized in profit or loss	14,468	23,076	21,657

(d) Variable lease payments

The Group has lease contracts for toluene storage tanks that contains variable payments based on the storage capacity being leased every 6 months. The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

	Fixed payments	Variable payments	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended December 31, 2021			
Fixed rent	5,412	–	5,412
Variable rent only	–	589	589
Year ended December 31, 2022			
Fixed rent	5,569	–	5,569
Variable rent only	–	2,088	2,088
Year ended December 31, 2023			
Fixed rent	5,569	–	5,569
Variable rent only	–	–	–

(e) The total cash outflow for leases and maturity profile of lease liabilities based on the contractual undiscounted payments are disclosed in notes 32(c) and 39, respectively, to the Historical Financial Information.

The Group as a lessor

The Group leases its owned storage tanks under operating lease arrangements for a period of 5 years since August 2020, which was renegotiated as a long term contract without a specific lease term in January 2022. Any early termination of the long-term contract requires a consensus from both the Group and the lessee. In addition, the Group leased a workshop for a period of one year from January 1 to December 31, with contract signed annually during the years ended December 31, 2021, 2022 and 2023. Rental income recognized by the Group during each of the Relevant Periods were RMB1,562,000, RMB1,774,000 and RMB1,774,000, respectively (note 5).

At the end of each of the Relevant Periods, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases, excluding the long-term contract without a specific lease term disclosed above, with its lessees are as follows:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,062	–	–
After one year but within two years	1,062	–	–
After two years but within three years	1,062	–	–
After three years but within four years	531	–	–
	3,717	–	–

At December 31, 2022 and 2023, the undiscounted lease payments receivable by the Group based on the long-term contract for the storage tanks without a specific lease term disclosed above are RMB1,321,000 in each coming year.

15. OTHER INTANGIBLE ASSETS

	Patent and licenses	Software	Total
	RMB'000	*RMB'000*	*RMB'000*
As at December 31, 2021			
Cost at January 1, 2021, net of accumulated amortization	2,543	2,885	5,428
Amortization provided during the year	(507)	(508)	(1,015)
At December 31, 2021	2,036	2,377	4,413
At December 31, 2021			
Cost	4,897	5,078	9,975
Accumulated amortization	(2,861)	(2,701)	(5,562)
Net carrying amount	2,036	2,377	4,413
As at December 31, 2022			
Cost at January 1, 2022, net of accumulated amortization	2,036	2,377	4,413
Additions – external purchase	123	–	123
Amortisation provided during the year	(479)	(484)	(963)
At December 31, 2022	1,680	1,893	3,573
At December 31, 2022			
Cost	5,020	5,078	10,098
Accumulated amortisation	(3,340)	(3,185)	(6,525)
Net carrying amount	1,680	1,893	3,573
As at December 31, 2023			
Cost at January 1, 2023, net of accumulated amortisation	1,680	1,893	3,573
Additions – external purchase	101	1,360	1,461
Amortisation provided during the year	(466)	(512)	(978)
At December 31, 2023	1,315	2,741	4,056
At December 31, 2023			
Cost	5,121	6,438	11,559
Accumulated amortisation	(3,806)	(3,697)	(7,503)
Net carrying amount	1,315	2,741	4,056

16. INVESTMENT IN A JOINT VENTURE

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	30,997	23,502	11,668

Particulars of the Group's joint venture is as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group			Principal activity
			As at December 31,			
			2021	2022	2023	
Hebei Kangshi New Materials Co., Ltd. ("Hebei Kangshi") 河北康石新材料有限公司	Ordinary shares	The PRC/ Mainland China	51%	51%	51%	Manufacture and sale of industrial products

Hebei Kangshi, which is considered a material joint venture of the Group, acts as the Group's manufacturer of industrial products in Mainland China and is accounted for using the equity method.

The following table illustrates the summarized financial information of Hebei Kangshi adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information:

	December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Current assets	71,372	29,553	41,406
Non-current assets	66,518	122,956	141,562
Current liabilities	12,036	47,467	137,290
Non-current liabilities	64,000	58,960	22,800
Net assets	61,854	46,082	22,878
Reconciliation to the Group's interest in the joint venture:			
Proportion of the Group's ownership	51%	51%	51%
Adjustments of unrealised profit arising from sales by the Group to the joint venture	(549)	–	–
Carrying amount of the investment	30,997	23,502	11,668
Revenue	57	1,902	231,766
Loss for the year	(11,785)	(15,772)	(23,204)

Hebei Kangshi was set up in January 2019 and the Group initially contributed RMB40,579,000 to the joint venture. During each of the Relevant Periods, the Group shared the loss of this joint venture amounting to RMB6,010,000, RMB8,044,000, and RMB11,834,000, respectively, before any adjustments of unrealised profit arising from sales by Hebei Kangshi to the Group.

Management assessed that there was no impairment indicator at the end of each of the Relevant Periods. Since Hebei Kangshi was in the startup stage where the construction of its factory was completed in January 2023, the financial performance was consistent with management's expectations.

17. INVESTMENTS IN ASSOCIATES

	As at December 31,		
	2021	2022	2023
	RMB’000	*RMB’000*	*RMB’000*
Share of net assets	29,110	33,306	24,272
Less: Accumulated impairment	(3,455)	–	–
	25,655	33,306	24,272

The Group’s trade receivable balances due from the associates are disclosed in notes 20 and 36(d) to the Historical Financial Information respectively.

Particulars of the Group’s associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group			Principal activity
			As at December 31,			
			2021	2022	2023	
Wuhan Eastman Organic Chemical Co., Ltd. (“Wuhan Eastman”) 武漢伊士曼有機化工有限公司	Ordinary shares	PRC/ Mainland China	49%	49%	49%	Manufacture of industrial products
Tiantong Fine Chemicals (Nantong) Co., Ltd. (“Tiantong Fine Chemicals”) 天同精細化工(南通)有限公司	Ordinary shares	PRC/ Mainland China	25%	–	–	Manufacture of industrial products

Wuhan Eastman was set up in December 2010 and the Group initially contributed RMB5,553,000 to the associate. During each of the Relevant Periods, the Group shared profit of RMB8,450,000, RMB7,341,000, and RMB4,473,000, respectively. The investment in Wuhan Eastman is accounted for using the equity method.

Tiantong Fine Chemicals was set up in Nantong, Jiangsu province. The Group acquired its 25% interests for a consideration of RMB5,302,000 in January 2018, and it became an associate of the Group accordingly. As at December 31, 2019, the recoverable amount of the investment in Tiantong Fine Chemicals was determined to be nil based on its value in use due to the local government’s decision to close the chemical factory in the area where Tiantong Fine Chemicals locates. Tiantong Fine Chemicals ceased its operation in 2020 and had been in the process of liquidation since August 2020. An impairment loss on the investment in the associate of RMB3,455,000 was recognized during the year ended December 31, 2019, and a gain from liquidations of RMB4,501,000 was recognized during the year ended December 31, 2022, with the final liquidation of Tiantong Fine Chemicals in August 2022.

The Group has discontinued the recognition of its share of loss of Tiantong Fine Chemicals since January 1, 2020 because the share of loss of the associate exceeded the Group’s interest in the associate and the Group has no obligation to take up further losses. The amount of the Group’s unrecognised share of loss of this associate for the year ended December 31, 2021 was nil and the cumulative unrecognised share of losses was RMB2,254,000 as at December 31, 2021.

The following table illustrates the summarized financial information of Wuhan Eastman, a material associate adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information.

	December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Current assets	44,478	68,038	43,166
Non-current assets, excluding goodwill	12,330	11,689	10,686
Current liabilities	3,141	11,124	3,725
Non-current liabilities	293	248	240
Net assets	53,374	68,355	49,887
Reconciliation to the Group's interest in the associate:			
Proportion of the Group's ownership	49%	49%	49%
Adjustments of unrealized profit arising from sales by the Group to the associate	(498)	(188)	(173)
Carrying amount of the investment	25,655	33,306	24,272
Revenue	106,737	83,358	62,881
Profit for the year	17,245	14,981	9,128
Dividend declared by the associate to the Group	–	–	13,522

	December 31,		
Tiantong Fine Chemicals	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Share of the associate's gain from liquidation	–	4,501	–
Carrying amount of the investment	–	–	–

18. INVESTMENT IN A SUBSIDIARY

The Company

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Investment cost	431,724	431,724	431,724

The amount represents the investment in the Company's wholly-owned subsidiary, Centelligence Holdings Limited, which is stated at cost as at December 31, 2021 and 2022 and 2023, respectively.

19. INVENTORIES

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	141,361	135,250	109,820
Work in progress	11,148	13,827	13,269
Finished goods	153,112	171,404	164,008
	305,621	320,481	287,097
Impairment	–	–	(1,764)
	305,621	320,481	285,333

At December 31, 2021, certain of the Group's inventories with a net carrying amount of approximately RMB31,944,000, were pledged to secure the Group's bank loans (note 26), and no inventories were pledged as at December 31, 2022 and 2023.

20. TRADE AND BILLS RECEIVABLES

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	99,655	143,218	97,211
Bills receivable	135,201	184,573	199,727
	234,856	327,791	296,938
Impairment	(498)	(812)	(624)
	234,358	326,979	296,314

The Group's trading terms with its customers are mainly paid in advance, except for some customers with good credit, where payment on credit is permitted. Generally, the credit period is one month and extending up to 120 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Bills receivable are measured at fair value through profit or loss. Bills receivable are bank acceptance bills that are unconditionally accepted by banks within the maturity period. Bills receivable are all aged within 12 months.

Included in the Group's trade receivables are amounts due from associates of the Group of nil, RMB5,245,000 and RMB1,261,000 (netted of RMB6,000 impairment allowance) as at December 31, 2021, 2022 and 2023, respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

Details of trade receivable balances due from other related parties are disclosed in note 36(d) to the Historical Financial Information.

Transferred financial assets that are not derecognized in their entirety

At December 31, 2021, 2022 and 2023, the Group endorsed certain bills receivable accepted by banks (the "Bank Bills") in Mainland China (the "Endorsed Bills") with a carrying amount of RMB133,293,000, RMB159,147,000 and RMB161,271,000, respectively, to certain of its suppliers in order to settle the trade and other payables due to such suppliers (the "Endorsement").

The Group also transferred certain Bank Bills in Mainland China with a carrying amount of nil, RMB300,000 and nil to certain banks in order to obtain cash from such banks (the "Discounted Bills") as at December 31, 2021, 2022 and 2023, respectively (note 26(d)).

In the opinion of the Company's directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills and Discounted Bills, and accordingly, the Group continued to recognize (i) the full carrying amounts of the Endorsed Bills and the relevant associated trade and other payables settled and (ii) the full carrying amounts of the Discounted Bills and the associated other borrowings associated with cash received. Subsequent to the Endorsement or Discount, the Group did not retain any rights on the use of the Endorsed or Discounted Bills, including the sale, transfer or pledge of the Endorsed and Discounted Bills to any other third parties.

At December 31, 2021, 2022 and 2023, the aggregated carrying amount of the trade payables and other payables settled by the Endorsed Bills to which the suppliers have recourse are RMB66,068,000, RMB94,795,000 and RMB96,457,000, respectively, and RMB67,225,000, RMB64,352,000 and RMB64,814,000, respectively.

At December 31, 2021, 2022 and 2023, the aggregated carrying amount of the other borrowings are nil, RMB15,300,000 and nil, respectively.

Transferred financial assets that are derecognized in their entirety

At December 31, 2021, 2022 and 2023, the Group endorsed certain Bank Bills in Mainland China with a carrying amount of RMB233,631,000, RMB270,250,000 and RMB149,474,000 respectively, to certain of its suppliers in order to settle the trade payables due to such suppliers. At December 31, 2021, 2022 and 2023, the Group also transferred certain Bank Bills in Mainland China with a carrying amount of RMB7,594,000, RMB38,433,000 and RMB9,646,000, respectively, to certain banks in order to obtain cash from such banks. These bills receivables being endorsed and transferred are collectively referred to derecognized bills (the "Derecognized Bills").

The Derecognized Bills had a maturity of one to twelve months at the end of each of the Relevant Periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognized Bills may exercise the right of recourse against any, several or all of the persons liable for the Derecognized Bills, including the Group, in disregard of the order of precedence (the "Continuing Involvement"). In the opinion of the Company's directors, the risk of the Group being claimed by the holders of the Derecognized Bills is remote in the absence of a default of the accepted banks. The Group has transferred substantially all risks and rewards relating to the Derecognized Bills. Accordingly, it has derecognized the full carrying amounts of the Derecognized Bills and the associated trade payables and other borrowings. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognized Bills and the undiscounted cash flows to repurchase these Derecognized Bills is equal to their carrying amounts. In the opinion of the Company's directors, the fair values of the Group's Continuing Involvement in the Derecognized Bills are not significant.

During each of the Relevant Periods, the Group has not recognized any gain or loss on the date of transfer of the Derecognized Bills. No gains or losses were recognized from the Continuing Involvement during each of the Relevant Periods. The endorsement and transfer have been made evenly throughout the Relevant Periods.

An aging analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 4 months	98,865	123,601	95,913
Over 4 months but within 6 months	65	17,612	–
Over 6 months but within 12 months	227	1,193	674
	99,157	142,406	96,587

The maturity date analysis for bills receivable is as follows:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	76,999	112,436	80,859
Over 3 months but within 6 months	47,072	68,658	118,868
Over 6 months but within 12 months	11,130	3,479	–
	135,201	184,573	199,727

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	314	498	812
Impairment losses	184	314	(188)
At end of year	498	812	624

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. Given there were no significant changes in the historical and forecasts of future conditions, the expected loss rates for trade receivables remained substantially the same throughout the Relevant Periods.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at December 31, 2021

		Past due		
	Current	Less than 3 months	3 to 6 months	Total
				RMB'000
Expected credit loss rate	0.4%	1.0%	3.0%	
Gross carrying amount	94,399	4,183	1,073	99,655
Expected credit losses	424	42	32	498

As at December 31, 2022

		Past due		
	Current	**Less than 3 months**	**3 to 6 months**	**Total**
				RMB'000
Expected credit loss rate	0.5%	1.0%	3.0%	
Gross carrying amount	130,974	10,544	1,700	143,218
Expected credit losses	656	105	51	812

As at December 31, 2023

		Past due		
	Current	**Less than 3 months**	**3 to 6 months**	**Total**
				RMB'000
Expected credit loss rate	0.5%	1.0%	3.0%	
Gross carrying amount	83,667	12,573	971	97,211
Expected credit losses	452	143	29	624

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Non-current:			
Prepayments for property, plant and equipment and leasehold land	28,630	60,740	32,704
Current:			
Loans to directors *(note 22)*	689	549	349
Amounts due from other related parties *(note 36(d))*	1,008,171	13,255	59,414
Deposits and other receivables	10,640	9,293	13,644
Prepayments	62,118	27,701	29,311
Deductible input VAT	13,234	12,811	31,711
Prepaid income tax	–	5,692	438
Investment in a fund*	–	–	10,500
	1,094,852	69,301	145,367

* The fund was set up in July 2023 in Mainland China, and the Group's investment in the fund was measured at fair value through profit or loss. Pursuant to a resolution of the fund's investors in December 2023, the fund was being cancelled as at December 31, 2023. The Group received the investment proceeds in January 2024 and the fund was then liquidated in February 2024.

None of the above financial assets is either past due or impaired. The other financial assets included in the above balances relate to receivables for which there was no recent history of default. As at the end of each of the Relevant Periods, the loss allowance was assessed to be minimal as the loss given default are minimal.

The Company

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Current:			
Due from a subsidiary *(note)*	–	113,170	127,077
Deposits and other receivables	2,614	6,193	9,555
Prepayments	796	2,873	354
	3,410	122,236	136,986

None of the financial assets included above is either past due or impaired. As at the end of each of the Relevant Periods, the loss allowance was assessed to be minimal as the loss given default are minimal.

Note: As disclosed in note 11, Centelligence Holdings Limited, a wholly-owned subsidiary declared dividends of RMB1,048,975,210 on February 28, 2022, RMB89,807,559 on December 28, 2022 and RMB270,000,000 on December 31, 2023 to the Company, respectively. As of December 31, 2023, RMB1,281,705,833 of declared dividends has been settled, while the remaining unsettled balance of RMB127,076,936 was recorded as other payable. As certain shareholders of the Wuhan Youji Employee Trust could not be contacted by December 31, 2023, the Group was unable to settle the dividend payable to these shareholders and therefore, the subsidiary has not yet settled the dividend payable to the Company.

The outstanding dividends receivable are non-interest bearing.

22. LOANS TO DIRECTORS

Name	At January 1, 2021	Maximum amount outstanding in 2021	At December 31, 2021
	RMB'000	*RMB'000*	*RMB'000*
Mr. Zou Xiaohong	589	589	549
Mr. Gao Lei	–	108	108
Mr. Shen Yingming	–	32	32
	589		689

Name	At January 1, 2022	Maximum amount outstanding in 2022	At December 31, 2022	Maximum amount outstanding in 2023	At December 31, 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Zou Xiaohong	549	549	549	549	349
Mr. Gao Lei	108	108	–	–	–
Mr. Shen Yingming	32	32	–	–	–
	689		549		349

The loans granted to directors are unsecured, non-interest-bearing and repayable on demand.

The loans granted to directors are non-trade in nature and will be settled prior to the Listing.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

The Group

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	118,965	148,126	105,560
Less: Pledged time deposits:			
Pledged for bills payable	(39,433)	(10,000)	–
Pledged for letter of credit	(10,071)	(50,174)	(40,127)
Others	–	(4,501)	–
	(49,504)	(64,675)	(40,127)
Cash and cash equivalents	69,461	83,451	65,433
Cash and bank balances denominated in:			
RMB	90,679	105,125	84,151
EUR	617	762	425
USD	27,669	42,239	20,984

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	125,250	161,228	149,705
Bills payable	71,000	10,000	–
	196,250	171,228	149,705

An aging analysis of the trade payables as at the end of the reporting period, based on the posting date, is as follows:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	123,829	156,772	149,444
1 year to 2 years	668	4,170	152
Over 2 years	753	286	109
	125,250	161,228	149,705

The maturity date analysis for bills payable is as follows:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	10,000	–
3 months to 6 months	25,000	–	–
6 months to 12 months	46,000	–	–
	71,000	10,000	–

Trade payables are non-interest-bearing and are normally settled within 90-day terms.

25. OTHER PAYABLES AND ACCRUALS

The Group

		As at December 31,		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Deferred output VAT		7,110	6,235	6,049
Contract liabilities	*(a)*	64,322	42,919	50,596
Other payables and accruals	*(b)*	159,880	159,248	160,878
Amounts due to related parties	*36(d)*	2,213	6,614	5,825
Dividend payable		–	113,170	127,077
Accrued wages and salaries		24,704	27,022	19,990
Other tax payable		4,944	6,878	2,556
		263,173	362,086	372,971

(a) Details of contract liabilities are as follows:

	As at January 1,	As at December 31,		
	2021	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short-term advances received from customers*	44,977	64,322	42,919	50,596

* Contract liabilities include short-term advances received to deliver industrial products. The fluctuation in contract liabilities at December 31, 2021, 2022 and 2023 was due to the changes of short-term advances received from customers based on their demand at the end of each of the Relevant Periods.

(b) Other payables are unsecured and non-interest-bearing. Details of other payables are as follows:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Construction fees	55,880	53,144	61,315
Transportation expenses	46,546	50,414	49,383
Spare parts fees	27,250	23,372	17,881
Energies	5,724	10,252	6,185
Deposits and others	24,480	22,066	26,114
	159,880	159,248	160,878

The Company

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Current:			
Dividend payable***	–	113,170	127,077
Amounts due to subsidiaries**	11,250	31,401	42,364
Others	–	–	15
	11,250	144,571	169,456

** The subsidiaries are Wuhan Youji Industry Co., Ltd and Wuhan International Holding II Limited. The above payables are non-trade in nature, unsecured, non-interest-bearing and repayable on demand.

*** The balance as at December 31, 2023 mainly represents payable to shareholders previously under the Wuhan Youji Employee Trust whom could not be contacted.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at December 31, 2021		
	Effective interest rate (%)	*Maturity*	*RMB'000*
Current			
Bank loans – secured	2-9	2022	581,527
Other borrowings – unsecured	2-12	2022	134,580
			716,107

	As at December 31, 2022			As at December 31, 2023		
	Effective interest rate (%)	*Maturity*	*RMB'000*	*Effective interest rate (%)*	*Maturity*	*RMB'000*
Current						
Bank loans – secured	4-5	2023	200,000	4-5	2024	268,020
Bank loans – unsecured	4-5	2023	345,000	3-5	2024	514,000
Current portion of long-term bank loans – secured	5	2023	10,000	5	2024	12,000
Current portion of long-term bank loans – unsecured	4	2023	2,000	4	2024	18,000
Other borrowings – secured		2023	50,000			–
Other borrowings – unsecured		2023	55,300		2024	40,000
			662,300			852,020
Non Current						
Bank loans – unsecured	4	2023-2024	18,000	4	2025	23,500
Bank loans – secured	5	2023-2025	54,000	5	2025	42,000
			72,000			65,500
			734,300			917,520

	As at December 31		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Analysed into:			
Bank loans repayable:			
Within one year	581,527	557,000	812,020
After one year but within two years	–	30,000	65,500
After two years but within five years	–	42,000	–
	581,527	629,000	877,520
Other borrowings repayable:			
Within one year	134,580	105,300	40,000
	716,107	734,300	917,520

Notes:

(a) Bank loans and other borrowings of the Group are secured by:

(i) mortgages over the Group's plant, equipment and buildings situated in Mainland China, which had an aggregate carrying amount as at December 31, 2021, 2022 and 2023 of RMB240,435,000, RMB139,731,000 and RMB130,554,000 respectively (note 13);

(ii) mortgages over the Group's leasehold lands situated in Mainland China, which had an aggregate carrying amount as at December 31, 2021, 2022 and 2023 of RMB94,570,000, RMB143,339,000 and RMB139,971,000 respectively (note 14);

(iii) mortgages over the Group's inventories situated in Mainland China, which had an aggregate carrying amount as at December 31, 2021 of RMB31,944,000 (note 19);

In addition to the mortgages mentioned above, bank loans of RMB556,554,000 as at December 31, 2021, were guaranteed by certain entities controlled by a close family member of Mr. Gao Lei, a director of the Company and substantial shareholder of the Company's parent (note 36). These guarantees provided by related parties have been subsequently released after August 19, 2022.

(b) All bank loans and other borrowings of the Group are denominated in RMB and at fixed interest rates except for an unsecured bank loan with the amount of RMB23,500,000 as at December 31, 2023 is at floating interest rate.

(c) Certain other borrowings with carrying amounts of RMB20,000,000, nil and nil as at December 31, 2021, 2022 and 2023, respectively, are borrowed from related parties (note 36(d)).

(d) Certain other borrowings are associated with the discounted bills but not derecognized, with carrying amounts of nil, RMB300,000 and nil as at December 31, 2021, 2022 and 2023, respectively (note 20).

(e) Certain other borrowings with carrying amounts of RMB25,000,000 as at December 31, 2021, were guaranteed by Linuo Group, a related party (note 36(c)(vii)).

27. GOVERNMENT GRANTS

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Government grants*	39,950	49,026	45,740

The movements in government grants during the Relevant Periods are as follows:

	Total
	RMB'000
At January 1, 2021	36,750
Received during the year	6,430
Released to profit or loss	(3,230)
At December 31, 2021 and January 1, 2022	39,950
Received during the year	13,646
Released to profit or loss	(4,570)
At December 31, 2022 and January 1, 2023	49,026
Received during the year	2,067
Released to profit or loss	(5,353)
At December 31, 2023	45,740

* The Group received government grants for capital expenditure incurred for the purchase of plant and equipment. The amounts are deferred and amortized over the estimated useful lives of the respective assets.

28. DEFERRED TAX

The movements in deferred tax liabilities and assets during each of the Relevant Periods are as follows:

Deferred tax liabilities

	Depreciation difference for tax purpose	Right of use assets	Withholding tax on undistributed profits of subsidiaries in Mainland China	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2021	25,044	4,539	74,053	103,636
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	2,594	(284)	34,396	36,706
Gross deferred tax liabilities at December 31, 2021	27,638	4,255	108,449	140,342
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	17,207	2,587	(78,023)	(58,229)
Gross deferred tax liabilities at December 31, 2022	44,845	6,842	30,426	82,113
Deferred tax charged/(credited) to profit or loss during the year *(note 10)*	4,132	(2,960)	(20,721)	(19,549)
Gross deferred tax liabilities at December 31, 2023	48,977	3,882	9,705	62,564

Deferred tax assets

	Government grants	Impairment losses	Lease liability	Unpaid payroll	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2021	5,513	203	4,735	3,231	1,909	15,591
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	(411)	(203)	(209)	475	391	43
Gross deferred tax assets at December 31, 2021	5,102	–	4,526	3,706	2,300	15,634
Deferred tax credited to profit or loss during the year *(note 10)*	2,252	–	2,499	346	392	5,489
Gross deferred tax assets at December 31, 2022	7,354	–	7,025	4,052	2,692	21,123
Deferred tax credited/(charged) to profit or loss during the year *(note 10)*	(493)	–	(2,887)	(1,053)	5,243	810
Gross deferred tax assets at December 31, 2023	6,861	–	4,138	2,999	7,935	21,933

The Group had accumulated tax losses arising in Mainland China of RMB4,207,000 as at December 31, 2023, which are available for offsetting against future taxable profits in ten years.

For presentation purposes, deferred tax assets and liabilities have been offset in the consolidated statements of financial position as follows:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Net deferred tax liabilities recognized in the consolidated statements of financial position	(124,708)	(60,990)	(40,631)

29. SHARE CAPITAL

The Company was incorporated on September 23, 2016 with an authorized share capital of US$50,000 divided into 50,000 ordinary shares with a par value of US$1.00 each.

On March 7, 2022, the Company carried out a 1 to 10,000 share subdivision whereby the authorized and issued number of ordinary shares of the Company became 500,000,000 with a par value of US$0.0001. The authorized and issued share capital remained unchanged at US$50,000.

On the same day, the Company entered into a subscription, repurchase and transfer agreement whereby:

(i) the Company repurchased the entire 500,000,000 ordinary shares from Cougar International at a consideration of US$5,200,000, which was subsequently settled in September 2022; and

(ii) the Company issued ordinary shares of 75,000,000 with par value of US$0.0001 each at par, the consideration of which was subsequently settled in August 2022.

The authorised number of ordinary shares of the Company keeps unchanged and is 500,000,000 with a par value of US$0.0001.

A summary of movements in the Company's issued share capital is as follows:

	Number of shares in issue	**Share capital**
		RMB'000
At January 1, 2021 and December 31, 2021	50,000	339
Share subdivision with an adjusted par value of US$0.0001	499,950,000	–
Shares repurchased	(500,000,000)	(339)
Issue of new ordinary shares	75,000,000	48
At December 31, 2022 and 2023	75,000,000	48

30. SHARE AWARD SCHEME

On January 18, 2021, Wuhan Linuo Investment Holdings Group Co., Ltd. ("Linuo Investment") and Cougar Holdings approved a share award scheme (the "Scheme") of Wuhan Youji, pursuant to which Linuo Investment (a substantial shareholder of Cougar Holdings) agreed to grant share awards representing an aggregate of 600 shares in Cougar Holdings (the "Awarded Shares") to 104 eligible employees of the Group, including the senior and middle management of Wuhan Youji at the time. The purpose of the scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The agreed and approved award price was RMB48,511.31 per share with a total award consideration of RMB29,106,786. The underlying Awarded Shares had been transferred by Linuo Investment to the eligible employees when a share transfer agreement was signed with Linuo Investment. Meanwhile, as the registration procedures of the employees ruling by relevant regulation had not been completed when the Awarded Shares were granted, such shares remained to be held by Linuo Investment according to the share transfer agreement. The award considerations were fully paid by the eligible employees to Linuo Investment in November 2021. Pursuant to the Scheme, the eligible employees of the Awarded Shares are required to provide services to the Group for five years starting from January 18, 2021.

The fair value of the Awarded Shares under the Scheme as at the date of grant was determined based on the discounted cash flow method by an independent professional valuer.

Based on the valuation, the fair value of each Awarded Share is determined at RMB52,007.93 and the total fair value of the Awarded Shares is amounted to RMB31,204,755. Hence, the total share-based payment expenses of the Scheme are RMB2,097,969. Set out below is a summary of the Scheme:

Date of grant	Fair value at the date of grant	Award price paid by employees	Total share-based payment expenses
	RMB'000	*RMB'000*	*RMB'000*
January 18, 2021	31,205	29,107	2,098

Total share-based payment expenses	Amortisation to profit or loss in 2021	Deferred expenses as at December 31, 2021	Amortisation to profit or loss in 2022	Deferred expenses as at December 31, 2022	Amortisation to profit or loss in 2023	Deferred expenses as at December 31, 2023
RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2,098	419	1,679	419	1,260	419	841

During the corporate reorganisation undergone by the Group in preparation of the initial listing for the shares of the Company on the Stock Exchange ("Listing") in March 2022, the Awarded Shares were replaced by 4,500,000 ordinary shares newly issued (which were included in the new issuance of 75,000,000 ordinary shares as described in note 29(ii)) by the Company and the effective interest in the Group under the Scheme remained the same at 6%. According to the Scheme, Mr. Shen Yingming will purchase the shares of the Company from the eligible employees if they leave the Group within 5 years from January 18, 2021 at a price which equals to the award price paid by the respective eligible employees plus an interest (based on bank deposit interest rate) for the period commencing from the date the employee paid the award price.

31. RESERVES

The Group

The amounts of the Group's reserves and the movements therein during each of the Relevant Periods are presented in the consolidated statements of changes in equity on pages I-7 to I-8 of the Historical Financial Information.

(i) Merger reserve

The merger reserve of the Group represents the difference between the par value of the Company's shares issued in exchange for the shares of the then holding company and the carrying amount of the issued share capital and capital contribution of the then holding company of the Group.

(ii) Statutory reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserve reach 50% of their respective registered capital.

(iii) Capital reserve

Capital reserve represents the difference between the consideration of US$5,200,000 for the repurchase of Company's shares and the carrying amount of the Company's share capital of US$50,000, according to the subscription, repurchase and transfer agreement entered into as at March 7, 2022.

(iv) Other reserves

Other reserves represent equity-settled share award arrangements (note 30).

The Company

The Company's capital reserve includes: (i) the difference between the par value of the Company's shares issued and the cost of investment in a subsidiary; and (ii) the difference between the consideration for the repurchase of Company's shares and the carrying amount of the Company's share capital on March 7, 2022.

The movements of the Company's reserves are as follows:

	Retained earnings/ (accumulated losses)	Capital reserve	Total
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2021	–	431,385	431,385
Loss and total comprehensive loss for the year	(7,840)	–	(7,840)
As at December 31, 2021	(7,840)	431,385	423,545
Repurchase of shares	–	(32,670)	(32,670)
Profit and total comprehensive income for the year	1,121,581	–	1,121,581
Dividend distribution	(1,102,832)	–	(1,102,832)
As at December 31, 2022	10,909	398,715	409,624
Profit and total comprehensive income for the year	259,849	–	259,849
Dividend distribution	(270,000)	–	(270,000)
As at December 31, 2023	758	398,715	399,473

32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

(i) During the years ended December 31, 2021, 2022 and 2023, the Group had non-cash additions of right-of-use assets of RMB5,009,000, RMB32,402,000 and RMB115,000, and non-cash additions of lease liabilities of RMB5,009,000, RMB32,402,000, and RMB115,000, respectively, in respect of the Group's lease arrangements.

(ii) During the years ended December 31, 2021, 2022 and 2023, the Group endorsed bills receivable of RMB108,486,000, RMB104,156,000 and RMB114,652,000, respectively, to settle the payables for purchase of property, plant and equipment.

(iii) During the year ended December 31, 2021, the Group endorsed bills receivable of RMB50,765,000 and RMB12,177,000, respectively, to related parties, Linuo Group and Wuhan Linuo Investment Holdings Group Co., Ltd. for funding purpose.

(iv) Based on an agreement entered into by Cougar Holdings, Mr. Gao Lei, Mr. Shen Yingming, Linuo Investment, Linuo Group, Wuhan Youji Employee Trust and Wuhan Youji on March 31, 2022, it was agreed that dividends of RMB820,026,606 that belongs to Mr. Gao Lei, Mr. Shen Yingming and Linuo Investment were used to offset the Group's receivables due from Linuo Group and Linuo Investment (note 11).

Based on the distribution agreement dated August 3, 2022, it was agreed that dividends of USD5,465, USD727, USD1,254, and USD54 were used to set-off the subscription price of the issuance of 75,000,000 ordinary shares (note 12) to Vastocean Capital Limited, Custodian Capital Ltd., SYM Holdings Limited and Fullfaith Capital Limited, respectively (note 11).

Based on an agreement entered into by Wuhan Youji Holdings Ltd, Mr. Gao Lei, Mr. Shen Yingming, Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Linuo Investment, Linuo Group and Wuhan Youji Industries Co., Ltd. on December 28, 2022, it was agreed that dividends of RMB65,886,529 that belongs to Mr. Gao Lei and Mr. Shen Yingming were used to offset the Group's receivables due from Linuo Group and Linuo Investment (note 11).

(v) Based on an agreement entered into by Hebei Kangshi and Wuhan Youji Industries Co., Ltd. on December 31, 2023, it was agreed that loans of RMB13,394,417 that Hebei Kangshi borrowed from Wuhan Youji Industries Co., Ltd. were used to offset the Group's payables due to Hebei Kangshi.

(vi) During the year ended 31 December 2023, Hebei Kangshi received prepayment of RMB7,172,869 from its customers, while Wuhan Youji fulfilled the contracts obligations by delivering goods to those customers on behalf of Hebei Kangshi. Since Hebei Kangshi should settle the payment of RMB7,172,869 to Wuhan Youji, Hebei Kangshi and Wuhan Youji entered into an agreement in September 2023, where both parties agreed that the amount due from Hebei Kangshi was repayable within one year and carried interest at 4.8% per annum.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	Pledged deposits	Interest payable	Lease liabilities	Total
	RMB'000 *(note 26)*	*RMB'000* *(note 23)*	*RMB'000*	*RMB'000* *(note 14(b))*	*RMB'000*
At January 1, 2021	558,343	(73,971)	–	31,780	516,152
Changes from financing cash flow	157,764	24,467	(32,379)	(8,123)	141,729
New leases	–	–	–	5,009	5,009
Interest expenses	–	–	32,379	1,687	34,066
At December 31, 2021 and January 1, 2022	716,107	(49,504)	–	30,353	696,956
Changes from financing cash flow	18,193	(15,171)	(28,630)	(18,316)	43,924
New leases	–	–	–	32,402	32,402
Interest expenses	–	–	28,630	2,396	31,026
At December 31, 2022 and January 1, 2023	734,300	(64,675)	–	46,835	716,460
Changes from financing cash flow	183,220	24,548	(30,356)	(17,242)	160,170
New leases	–	–	–	115	115
Lease modification	–	–	–	(4,043)	(4,043)
Interest expenses	–	–	30,356	1,925	32,281
At December 31, 2023	917,520	(40,127)	–	27,590	904,983

(c) The total cash outflows for leases included in the statements of cash flows are as follows:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within operating activities	3,038	2,088	4
Within investing activities	51,258	21,452	646
Within financing activities	8,123	18,316	17,242
	62,419	41,856	17,892

33. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Group had no significant contingent liabilities.

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in notes 13, 14, 19, 20 and 23, respectively, to the Historical Financial Information.

35. COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Plant and machinery	17,730	60,623	42,700

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed in note 11, note 17, note 25 and note 32(a) to the Historical Financial Information, the Group had the following transactions and balances with related parties during the Relevant Periods.

(a) Name and relationship

Name of related parties	**Relationship with the Group**
Mr. Gao Lei	Non-executive director and single largest shareholder of the Company's parent
Mr. Gao Yuankun	Father of Mr. Gao Lei
Ms. Chen Lianna	Mother of Mr. Gao Lei
Mr. Shen Yingming	Non-executive director
Mr. Zou Xiaohong	Executive director
Vastocean Capital Limited	Immediate and ultimate parent of the Company, controlled by Mr. Gao Lei (since March 2022)

Name of related parties	Relationship with the Group
Custodian Capital Ltd.	Entity controlled by Mr. Gao Lei (since March 2022)
SYM Holdings Limited	Entity controlled by Mr. Shen Yingming (since March 2022)
Fullfaith Capital Limited	A shareholder of the Company (since March 2022)
Cougar Holdings	Sole shareholder of the Company's parent (up to March 2022)
Cougar International	Sole shareholder of the Company (up to March 2022)
力諾集團股份有限公司 Linuo Group	Entity controlled by Mr. Gao Yuankun
武漢力諾投資控股集團有限公司 Linuo Investment	Entity controlled by Mr. Gao Yuankun
武漢新康化工設備有限公司 Wuhan Xinkang Chemical Equipment Co., Ltd. ("Xinkang Chemical")	Entity controlled by Mr. Gao Lei
Tiantong Fine Chemicals	Associate
Wuhan Eastman	Associate
Hebei Kangshi	Joint venture
山東宏濟堂製藥集團股份有限公司 Shandong Hongjitang Pharmaceutical Group Co., Ltd. ("Shandong Hongjitang")	Entity controlled by Mr. Gao Yuankun
山東科源製藥股份有限公司 Shandong Keyuan Pharmaceutical Co., Ltd. ("Shandong Keyuan")	Entity controlled by Mr. Gao Yuankun
武漢雙虎塗料股份有限公司 Wuhan Twin Tigers Coatings Co., Ltd. ("Twin Tigers Coatings")	Entity controlled by Mr. Gao Yuankun
武漢力諾智慧園科技管理有限公司 Wuhan Linuo Wisdom Park Technology Management Co., Ltd. ("Linuo Wisdom Park Technology")	Entity controlled by Mr. Gao Yuankun
山東城安實業有限公司 Shandong Chengan Industrial Co., Ltd. ("Shandong Chengan")	Entity controlled by Mr. Gao Yuankun
應城市武瀚有機材料有限公司 Yingcheng Wuhan Organic Material Co., Ltd. ("Yingcheng Wuhan Organic")	Mr. Zou Xiaohong is the corporate representative and minority shareholder of the entity
山東力諾製藥有限公司 Shandong Linuo Pharmaceutical Co., Ltd. ("Shandong Linuo Pharmaceutical")	Entity controlled by Mr. Gao Yuankun

Name of related parties	Relationship with the Group
海南力諾新能源開發有限公司 Hainan Linuo New Energy Development Co., Ltd. ("Hainan Linuo")	Entity controlled by Mr. Gao Yuankun
山東力諾光伏高科技有限公司 Shandong Linuo Photovoltaic Hi-tech Co., Ltd. ("Shandong Linuo Photovoltaic")	Entity controlled by Mr. Gao Yuankun
單縣鑫諾光電科技有限公司 Shanxian Xinnuo Photoelectric Technology Co., Ltd. ("Shanxian Xinnuo Photoelectric")	Entity controlled by Mr. Gao Yuankun
湖北拓樸有機磷化進出口有限公司 Hubei Tuopu Organic and Phosphoric Chemicals Import & Export Co., Ltd. ("Hubei Tuopu")	A non-controlling shareholder of the Cougar Holdings
山東宏濟堂健康產業有限公司 Shandong Hongjitang Health Industry Co., Ltd. ("Shandong Hongjitang Health")	Entity controlled by Mr. Gao Yuankun
山東力諾進出口貿易有限公司 Shandong Linuo Import and Export Trading Co., Ltd. ("Shandong Linuo Import and Export")	Entity controlled by Mr. Gao Yuankun

(b) Significant related party transactions

The Group had the following material related party transactions during each of the Relevant Periods:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Purchases of goods or services			
Linuo Investment *(i)*	5,780	17,713	21,190
Linuo Wisdom Park Technology *(ii)*	2,324	825	77
Twin Tigers Coatings *(iii)*	4,733	2,215	2,054
Shandong Hongjitang Health *(iv)*	1,115	556	8
Shandong Linuo Photovoltaic	50	–	–
Hebei Kangshi *(iv)*	–	–	151,222
	14,002	21,309	174,551
Purchases of machinery			
Xinkang Chemical *(v)*	33,176	40,408	25,660

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Sales of goods			
Hubei Tuopu *(vi)*	24,325	4,689	7,637
Twin Tigers Coatings *(vi)*	15,694	194	–
Yingcheng Wuhan Organic *(vi)*	3,297	5,764	1,158
Shandong Keyuan	539	–	–
Hebei Kangshi	–	2,294	28
Linuo Wisdom Park Technology	150	401	426
Shandong Linuo Import and Export	38	–	–
Linuo Investment	19	–	–
Shandong Hongjitang	15	–	–
	44,077	13,342	9,249
Wuhan Eastman *(vi)*	30,633	29,022	25,749
Tiantong Fine Chemicals *(vi)*	564	–	–
	31,197	29,022	25,749
	75,274	42,364	34,998
Render of services			
Xinkang Chemical *(vi)*	4,796	2,491	1,084
Twin Tigers Coatings *(vi)*	2,695	2,650	2,506
	7,491	5,141	3,590
Disposal of machinery and equipment			
Xinkang Chemical *(x)*	1,590	124	8,928

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Loans to			
Linuo Group *(vii)*	259,791	3,140	–
Linuo Investment *(vii)*	229,148	53,845	–
Twin Tigers Coatings	5,000	–	–
Shanxian Xinnuo Photoelectric	2,000	–	–
Mr. Gao Lei	108	–	–
Mr. Shen Yingming	32	–	–
Hebei Kangshi *(xi)*	–	–	58,128
	496,079	56,985	58,128

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Settled from loans to			
Linuo Investment *(vii)*	188,387	487,835	–
Linuo Group *(vii)*	92,039	570,194	5
Twin Tigers Coatings	5,000	–	–
Shanxian Xinnuo Photoelectric	1,000	1,000	–
Mr. Gao Lei	–	108	–
Mr. Zou Xiaohong	40	–	200
Mr. Shen Yingming	–	32	–
Hebei Kangshi *(xi)*	–	–	13,394
	286,466	1,059,029	13,599
Borrowings from			
Yingcheng Wuhan Organic *(viii)*	86,542	177	–
Hebei Kangshi *(ix)*	26,030	–	–
	112,572	177	–
Repayments of borrowings from			
Yingcheng Wuhan Organic *(viii)*	76,542	20,177	–
Hebei Kangshi *(ix)*	26,030	–	–
	102,572	20,177	–

Notes:

(i) During the Relevant Periods, the Group leased buildings and received property management service from Linuo Investment.

(ii) During the years ended December 31, 2021, 2022, and 2023, the Group received dining service and property management service from Linuo Wisdom Park Technology. During the year ended December 31, 2023, the Group only receives dining service from Linuo Wisdom Park Technology.

(iii) During the Relevant Periods, the Group leased buildings and purchased industrial products from Twin Tigers Coatings.

(iv) During the Relevant Periods, the Group purchased industrial products from Tiantong Fine Chemicals and Hebei Kangshi, purchased processing service provided by Hebei Kangshi since September 2023, and purchased health products from Shandong Hongjitang Health.

(v) During the Relevant Periods, the Group purchased machinery from Xinkang Chemical and Twin Tigers Coatings.

(vi) During the Relevant Periods, the Group sold industrial products to Wuhan Eastman, Hubei Tuopu, Twin Tigers Coatings, Tiantong Fine Chemicals, and Yingcheng Wuhan Organic. In addition, the Group provided processing and leasing of storage tanks to Twin Tigers Coatings and other services to Xinkang Chemical.

(vii) During the years ended December 31, 2021, and 2022, and 2023, the Group provided loans to and received payments from Linuo Group. Certain loans with aggregate principal amount of RMB200,000,000 at December 31, 2021, are interest-bearing at rates ranging from 6.96% to 8.64% per annum. During the years ended December 31, 2021, and 2022, the interest income was RMB17,520,000, and RMB4,320,000, respectively. The remaining loans are interest-free. All loans are unsecured and repayable within one year.

RMB502,307,362 of the outstanding loans recorded in other receivables due from Linuo Group were offset by the dividends declared to Mr. Gao Lei and Mr. Shen Yingming in 2022 (note 11), including the RMB200,000,000 interest-bearing loan being offset in full.

RMB383,605,772 of the outstanding loans recorded in other receivables due from Linuo Investment were offset by the dividends declared to Mr. Gao Lei and Linuo Investment in 2022 (note 11).

(viii) During the years ended December 31, 2021, and 2022, the Group borrowed from Yingcheng Wuhan Organic at an interest rate of 12% per annum. During the years ended December 31, 2021, and 2022, the interest expenses were RMB1,542,000, and RMB177,000, respectively. The loan is unsecured and repayable within one month.

(ix) During the years ended December 31, 2021, the Group borrowed from Hebei Kangshi at an interest rate of 4.78% per annum. During the years ended December 31, 2021, the interest expense was RMB30,000. The loan is unsecured and repayable within one year.

(x) In 2021, the Group disposed certain machinery and equipment with an aggregate carrying amount of RMB17,030,000 to Xinkang Chemical for a consideration of RMB1,590,000, with a disposal loss of RMB15,440,000 was recognized.

In 2022, the Group disposed certain machinery and equipment with an aggregate carrying amount of RMB120,000 to Xinkang Chemical for a consideration of RMB124,000, with a disposal gain of RMB4,000 was recognised.

(xi) In 2023, the Group disposed certain machinery and equipment included in a construction in progress project with an aggregate carrying amount of RMB8,928,000 to Xinkang Chemical for a consideration of RMB8,928,000, with a disposal loss of nil was recognised.

(xii) During the year ended December 31, 2023, the Group provided loans to Hebei Kangshi at an interest rate of 4.8% per annum, and the related interest income of RMB1,032,000 was recognised during the year. The loan is unsecured and repayable within one year.

The sales and purchase prices of goods were made with reference to published prices and conditions of the goods, and were mutually agreed by the Group and the related parties.

Except as mentioned in the notes (vii) above, the loans advanced to related parties are unsecured, non-interest bearing and repayable on demand. The loan receivables as at the end of each of the Relevant Periods are classified as current and included in "Prepayments, deposits and other receivables" on the face of the consolidated statements of financial position.

(c) Other transactions with related parties

(i) Linuo Group guaranteed certain bank loans to the Group of RMB100,120,000, as at December 31, 2021, respectively, as disclosed in note 26(a) to the Historical Financial Information.

(ii) Linuo Group and Linuo Investment jointly guaranteed certain bank loans to the Group of RMB145,186,000, as at December 31, 2021 as disclosed in note 26(a) to the Historical Financial Information.

(iii) Linuo Group, Mr. Gao Yuankun and Ms. Chen Lianna jointly guaranteed certain bank loans to the Group of RMB49,618,000, as at December 31, 2021 as disclosed in note 26(a) to the Historical Financial Information.

(iv) Linuo Group, Linuo Investment, Twin Tigers Coatings, Mr. Gao Yuankun and Ms. Chen Lianna jointly guaranteed certain bank loans to the Group of RMB100,168,000, as at December 31, 2021, as disclosed in note 26(a) to the Historical Financial Information.

(v) Linuo Group, Hainan Linuo, Twin Tigers Coatings, Mr. Gao Yuankun and Ms. Chen Lianna jointly guaranteed certain bank loans to the Group of RMB30,072,000, as at December 31, 2021, as disclosed in note 26(a) to the Historical Financial Information.

(vi) Linuo Group and Mr. Gao Yuankun jointly guaranteed certain bank loans to the Group of RMB131,390,000, as at December 31, 2021 as disclosed in note 26(a) to the Historical Financial Information.

(vii) Linuo Group guaranteed certain other borrowings to the Group of RMB25,000,000, as at December 31, 2021 as disclosed in note 26(e) to the Historical Financial Information.

All the above-mentioned guarantees provided by related parties over the Group's certain bank loans and other borrowings have been released as of December 31, 2022, as disclosed in note 26 to the Historical Financial Information.

(viii) At December 31, 2021, the Group provided guarantees of RMB267,000,000, RMB40,000,000, RMB3,000,000 and RMB64,000,000 to to the loans borrowed by Linuo Investment, Twin Tigers Coatings, Xinkang Chemical and Hebei Kangshi, respectively. At December 31, 2022, the Group provided guarantee of RMB24,960,000 to the loan borrowed by Hebei Kangshi, which was released as of July 20, 2023. The guarantees provided by the Group to other related parties has been released as of December 31, 2022.

The Group did not pay or incur any liability during the Relevant Periods for the purpose of fulfilling the guarantees. The Group did not hold any collateral or other credit enhancements over the guarantees. The carrying amount of the financial guarantees as at the end of each of the Relevant Periods was not significant. The credit exposure of the financial guarantee contracts is classified as stage 1. During the Relevant Periods, there were no transfers between stages.

(d) Outstanding balances with related parties

The Group had the following outstanding balances with related parties at December 31, 2021, 2022 and 2023.

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Due from related parties included in prepayments, deposits and other receivables (non-trade in nature)			
Linuo Group *(note(b)(vii))**	562,480	5	–
Linuo Investment*	435,134	–	–
Cougar Holdings	1,595	1,595	–
Shanxian Xinnuo Photoelectric	1,000	–	–
Mr. Zou Xiaohong *(note 22)*	549	549	349
Wuhan Eastman	499	188	220
Mr. Gao Lei *(note 22)*	108	–	–
Twin Tigers Coatings	100	641	1,134
Hebei Kangshi	51	–	44,734
Mr. Shen Yingming *(note 22)*	32	–	–
Xinkang Chemical	3	1,026	–
	1,001,551	4,004	46,437
Included in prepayments, deposits and other receivables (trade in nature)			
Xinkang Chemical	–	–	10,326
Hebei Kangshi	–	5,000	3,000
Linuo Investment	7,309	4,800	–
	7,309	9,800	13,326

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Included in trade receivables (trade in nature)			
Twin Tigers Coatings	1,616	–	–
Xinkang Chemical	1,410	291	–
Wuhan Eastman	–	5,245	1,267
Hebei Kangshi	–	355	–
Hubei Tuopu	–	32	–
Impairment	(15)	(30)	(6)
	3,011	5,893	1,261
Total amounts due from related parties	1,011,871	19,697	61,024

The Group's trading terms with related parties are the same as other customers of the Group (note 20).

The trade receivables due from related parties are non-interest-bearing and unsecured. The ECL assessment of the trade receivables is disclosed in note 20 to the Historical Financial Information.

Except for the loans due from Linuo Group as disclosed in note 36(b)(vii) above, the other receivables due from related parties are non-interest bearing, unsecured and repayable on demand and with no recent history of default and past due amounts. The loss allowance was assessed to be minimal.

The above non-trade balances due from related parties included in prepayments, deposits and other receivables will be settled by the Group prior to the Listing.

* On March 31, 2022, according to the agreement entered into by Cougar Holdings, Mr. Gao Lei, Mr. Shen Yingming, Linuo Investment, Linuo Group, Wuhan Youji Employee Trust and Wuhan Youji, the dividends of RMB820,026,606 declared by the Company were used to settle receivables due from related parties. Dividends of RMB428,194,573 declared to Mr. Gao Lei and RMB48,420,215 declared to Mr. Shen Yingming were used to offset the Group's receivables due from Linuo Group, and dividends of RMB343,411,818 declared to Linuo Investment were used to offset the Group's receivables due from Linuo Investment as of March 31, 2022 (note 11).

On December 28, 2022, according to the agreement entered into by Wuhan Youji Holdings Ltd, Mr. Gao Lei, Mr. Shen Yingming, Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Linuo Investment, Linuo Group and Wuhan Youji Industries Co., Ltd., the dividends of RMB65,886,529 declared by the Company were used to settle receivables due from related parties. Dividends of RMB12,515,269 declared to Mr. Gao Lei and RMB13,177,305 declared to Mr. Shen Yingming were used to offset the Group's receivables due from Linuo Group, and dividends of RMB40,193,955 declared to Mr. Gao Lei were used to offset the Group's receivables due from Linuo Investment as of December 28, 2022 (note 11).

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Due to related parties included in other payables and accruals (non-trade in nature)			
Hebei Kangshi	–	7	–
Due to related parties included in other payables and accruals (trade in nature)			
Mr. Zou Xiaohong	–	–	1
Shandong Hongjitang	–	–	5
Linuo Investment	–	–	3,245
Xinkang Chemical	380	5,387	2,407
Shandong Chengan	660	283	74
Linuo Wisdom Park Technology	1,109	873	36
Shandong Linuo Photovoltaic	57	57	57
Twin Tigers Coatings	7	7	–
	2,213	6,607	5,825
Included in other borrowings			
Yingcheng Wuhan Organic *(note 36(b)(viii))*	20,000	–	–
Included in contract liabilities (trade in nature)			
Yingcheng Wuhan Organic	7	16	2
Included in trade payable (trade in nature)			
Hebei Kangshi	–	–	139
Total amounts due to related parties	22,220	6,630	5,966

The financial liabilities included in the above balances are non-interest bearing, unsecured and repayable within one year.

The above non-trade balances due to related parties included in other payables and accruals will be settled by the Group prior to the Listing.

(e) Financing arrangements

The following transactions were carried out with the related parties:

(i) Pursuant to the agreements between the Group and Twin Tigers Coatings, the Group leased land and plant from Twin Tigers Coatings for a lease term from July 13, 2020 to July 12, 2025. The lease terms were mutually agreed between parties. Right-of-use assets and lease liabilities were recognized at the commencement date of the leases. The amount of rent payable by the Group under the lease was approximately RMB171,000 per month.

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Included in lease liabilities:			
Amounts owed to Twin Tigers Coatings	6,495	4,738	2,890
Related interest expenses	384	298	206
Related depreciation charged	1,806	1,806	1,806

(ii) Pursuant to an agreement between the Group and Linuo Investment, the Group leased buildings from Linuo Investment for a lease term from January 1, 2021 to December 31, 2021. The lease terms were mutually agreed between parties. The Group has applied short-term lease recognition exemption to this lease. The amount of rent payable by the Group under the lease was RMB200,000 per month. In 2022, the Group entered into three long-term lease agreements leasing buildings and leasehold land from Linuo Investment including:

- A lease agreement with 3-years lease term from January 1, 2022 to December 31, 2024 at a monthly rental of RMB600,000;
- A lease agreement with 2.6-year lease term from June 1, 2022 to December 31, 2024 at a monthly rental of RMB50,000;
- A lease agreement with 5-year lease term from July 1, 2022 to June 30, 2027 at an annual rental of RMB3,000,000, which was amended on July 1, 2023, with reduced leasing area at an annual rental of RMB1,800,000, charged at the same rent per unit area.

These agreements have been recognized as lease liabilities and right-of-use assets (note 14).

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Included in lease liabilities:			
Amounts owed to Linuo Investment	–	23,712	11,711
Related interest expenses	–	943	849
Related depreciation charged	–	7,750	8,731

(f) Compensation of key management personnel of the Group

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	3,910	4,518	4,712
Performance-based bonuses	5,400	6,110	–
Equity-settled share award expenses	102	102	102
Pension scheme contributions	270	282	217
	9,682	11,012	5,031

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

As at December 31, 2021

Financial assets

	Financial assets at amortized cost	Financial assets at FVTPL	Total
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills receivables	99,157	135,201	234,358
Financial assets included in prepayments, deposits and other receivables	1,019,500	–	1,019,500
Pledged deposits	49,504	–	49,504
Cash and cash equivalents	69,461	–	69,461
	1,237,622	135,201	1,372,823

Financial liabilities

	Financial liabilities at amortized cost
	RMB'000
Interest-bearing bank and other borrowings	716,107
Trade and bills payables	196,250
Financial liabilities included in other payables and accruals	162,093
Lease liabilities	30,353
	1,104,803

As at December 31, 2022

Financial assets

	Financial assets at amortized cost	Financial assets at FVTPL	Total
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills receivables	142,406	184,573	326,979
Financial assets included in prepayments, deposits and other receivables	23,097	-	23,097
Pledged deposits	64,675	-	64,675
Cash and cash equivalents	83,451	-	83,451
	313,629	184,573	498,202

Financial liabilities

	Financial liabilities at amortized cost
	RMB'000
Interest-bearing bank and other borrowings	734,300
Trade and bills payables	171,228
Financial liabilities included in other payables and accruals	279,032
Lease liabilities	46,835
	1,231,395

As at December 31, 2023

Financial assets

	Financial assets at amortized cost	Financial assets at FVTPL	Total
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills receivables	96,587	199,727	296,314
Financial assets included in prepayments, deposits and other receivables	70,407	10,500	80,907
Pledged deposits	40,127	–	40,127
Cash and cash equivalents	65,433	–	65,433
	272,554	210,227	482,781

Financial liabilities

	Financial liabilities at amortized cost
	RMB'000
Interest-bearing bank and other borrowings	917,520
Trade and bills payables	149,705
Financial liabilities included in other payables and accruals	293,780
Lease liabilities	27,590
	1,388,595

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, trade and bills payables and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each of the Relevant Periods, the finance department analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the directors of the Company once a year for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values of bills receivable and other current asset have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value during each of the Relevant Periods were assessed to be insignificant.

The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of the non-current portion of interest-bearing bank loans are assessed to be approximate to its carrying amount as at December 31, 2022 and 2023. The changes in fair values as a result of the Group's own non-performance risk for interest-bearing bank loans as at December 31, 2022 and 2023 were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at December 31, 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivable	–	135,201	–	135,201

As at December 31, 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivable	–	184,573	–	184,573

As at December 31, 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bills receivable	–	199,727	–	199,727
Investment in a fund	–	10,500	–	10,500
	–	210,227	–	210,227

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets during each of the Relevant Periods.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and cash equivalents, and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, trade and bills payables and other receivables and payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarized below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales in currencies other than the units' functional currencies. Approximately 22%, 23% and 23% for the years ended December 31, 2021, 2022 and 2023, respectively, of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale.

The following table demonstrates the sensitivity to a reasonably possible change in the Euro ("EUR") and RMB exchange rate, USD and RMB exchange rate, of the Group's profit before tax and equity.

	Increase/(decrease) in exchange rate	**Increase/(decrease) in profit before tax**	**Increase/(decrease) in equity**
	%	*RMB'000*	*RMB'000*
2023			
If the USD weakens against the RMB	(5)	(4,453)	(3,370)
If the USD strengthens against the RMB	5	4,453	3,370
If the EUR weakens against the RMB	(5)	(48)	(36)
If the EUR strengthens against the RMB	5	48	36
2022			
If the USD weakens against the RMB	(5)	(3,360)	(2,540)
If the USD strengthens against the RMB	5	3,360	2,540
If the EUR weakens against the RMB	(5)	(16)	(12)
If the EUR strengthens against the RMB	5	16	12
2021			
If the USD weakens against the RMB	(5)	(3,683)	(2,748)
If the USD strengthens against the RMB	5	3,683	2,748
If the EUR weakens against the RMB	(5)	(31)	(23)
If the EUR strengthens against the RMB	5	31	23

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade and bills receivables, prepayments, deposits and other receivables, and pledged deposits included in the statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at the end of each of the Relevant Periods, cash and cash equivalents and pledged deposits were deposited in banks of high quality without significant credit risk. Management does not expect any loss to arise from non-performance by these banks.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification. The amounts presented are gross carrying amounts for financial assets.

As at December 31, 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	99,655	99,655
Financial assets included in prepayments, deposits and other receivables					
– Normal*	1,019,500	–	–	–	1,019,500
Pledged deposits	49,504	–	–	–	49,504
Cash and cash equivalents	69,461	–	–	–	69,461
	1,138,465	–	–	99,655	1,238,120

As at December 31, 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	143,218	143,218
Financial assets included in prepayments, deposits and other receivables					
– Normal*	23,097	–	–	–	23,097
Pledged deposits	64,675	–	–	–	64,675
Cash and cash equivalents	83,451	–	–	–	83,451
	171,223	–	–	143,218	314,441

As at December 31, 2023

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	97,211	97,211
Financial assets included in prepayments, deposits and other receivables					
– Normal*	70,407	–	–	–	70,407
Pledged deposits	40,127	–	–	–	40,127
Cash and cash equivalents	65,433	–	–	–	65,433
	175,967	–	–	97,211	273,178

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral on normal basis.

There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in industries.

* The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

As at December 31, 2021

	Less than 12 months or on demand	After 1 year but within 2 years	After 2 year but within 3 years	After 3 year but within 4 years	After 4 year but within 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Lease Liabilities	8,683	8,409	8,019	6,811	2,785	34,707
Interest-bearing bank and other borrowings	731,737	–	–	–	–	731,737
Trade and bills payables	196,250	–	–	–	–	196,250
Financial liabilities included in other payables and accruals	162,093	–	–	–	–	162,093
	1,098,763	8,409	8,019	6,811	2,785	1,124,787

As at December 31, 2022

	Less than 12 months or on demand	After 1 year but within 2 years	After 2 year but within 3 years	After 3 year but within 4 years	After 4 year but within 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Lease Liabilities	18,317	17,928	9,609	5,537	–	51,391
Interest-bearing bank and other borrowings	677,293	33,058	42,554	–	–	752,905
Trade and bills payables	171,228	–	–	–	–	171,228
Financial liabilities included in other payables and accruals	279,032	–	–	–	–	279,032
	1,145,870	50,986	52,163	5,537	–	1,254,556

As at December 31, 2023

	Less than 12 months or on demand	After 1 year but within 2 years	After 2 year but within 3 years	After 3 year but within 4 years	After 4 year but within 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Lease Liabilities	16,868	8,550	4,440	–	–	29,858
Interest-bearing bank and other borrowings	873,793	66,310	–	–	–	940,103
Trade and bills payables	149,705	–	–	–	–	149,705
Financial liabilities included in other payables and accruals	293,780	–	–	–	–	293,780
	1,334,146	74,860	4,440	–	–	1,413,446

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's abilities to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital as at the end of each of the Relevant Periods.

The Group uses the gearing ratio which is net debt divided by total equity to monitor its capital structure. The gearing ratio as at the end of each of the Relevant Periods were as follows:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings *(note 26)*	716,107	734,300	917,520
Lease liabilities *(note 14)*	30,353	46,835	27,590
Less: Cash and cash equivalents *(note 23)*	(69,461)	(83,451)	(65,433)
Pledged deposits	(49,504)	(64,675)	(40,127)
Net debt	627,495	633,009	839,550
Equity attributable to owners of the parent	1,520,318	726,107	529,617
Gearing ratio	41%	87%	159%

40. EVENTS AFTER THE RELEVANT PERIODS

The Group has no significant events subsequent to the end of the Relevant Periods.

41. SUBSEQUENT FINANCIAL STATEMENTS

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

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the parent as if the Global Offering had taken place on December 31, 2023.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group to owners of the parent had the Global Offering been completed as of December 31, 2023 or as at any future dates.

	Consolidated net tangible assets of the Group attributable to owners of the parent as at December 31, 2023	Estimated net Proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets as at December 31, 2023	Unaudited pro forma adjusted consolidated net tangible assets per Share as at December 31, 2023	
	RMB'000 *(Note 1)*	*RMB'000* *(Note 2)*	*RMB'000*	*RMB* *(Note 3)*	*HK$* *(Note 4)*
Based on an Offer Price of HK$5.5 per Share	525,561	55,823	581,384	6.23	6.86
Based on an Offer Price of HK$7.0 per Share	525,561	80,758	606,319	6.50	7.16
Based on an Offer Price of HK$8.5 per Share	525,561	105,694	631,255	6.77	7.45

Notes:

1. The consolidated net tangible assets of the Group attributable to equity holders of the parent as at December 31, 2023, was arrived at after deducting other intangible assets of RMB4,056,000 from the consolidated net assets attributable to owners of the parent as at December 31, 2023 of RMB529,617,000 set out in the Accountants' Report in Appendix I to this document.

2. The estimated net proceeds from the Global Offering are based on an Offer Price of HK$5.5 per Share, HK$7.0 per Share and HK$8.5 per Share, after deduction of the underwriting fees and other related expenses payable by the Company (excluding approximately RMB32,329,000 which have been recognised in profit or loss up to December 31, 2023) and do not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to notes 1 and 2 above and on the basis that 93,300,000 Shares are in issue, assuming the Global Offering has been completed on December 31, 2023.

4. For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balances stated in RMB are converted into HK$ at the rate of RMB1.00 to HK$1.1008 prevailing on the Latest Practicable Date.

5. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2023.

6. No dividends had been declared subsequent to December 31, 2023 and up to the Latest Practicable Date.

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

The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this Document, in respect of the pro forma financial information of the Group.

EY 安永

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To the Directors of Wuhan Youji Holdings Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Wuhan Youji Holdings Ltd. (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at December 31, 2023, and related notes as set out on pages II-1 to II-2 of the prospectus dated June 7, 2024 issued by the Company (the "**Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described on pages II-1 and II-2 to the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at December 31, 2023 as if the transaction had taken place at December 31, 2023. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended December 31, 2023, on which an accountants' 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 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* 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 HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* 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 accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) 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 accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 the Pro Forma Financial Information included in the prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if 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 transaction 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 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 accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the 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 purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Ernst & Young
Certified Public Accountants
Hong Kong
June 7, 2024

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on September 23, 2016 under the Cayman Companies Act. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and its Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on May 21, 2024 and effective on the Listing Date. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated with the consent of at least three-fourths of the voting rights of the holders of the shares of that class present and voting in person or by proxy at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Cayman Companies Act and the requirements of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognize any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or installment of a call on the day appointed for payment, the Board may, for so long as any part of the call or installment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The Company shall include the particulars of such proposed person for election as a Director in its announcement or supplementary circular, and shall give the shareholders at least seven days to consider the relevant information disclosed in such announcement or supplementary circular prior to the date of the meeting of the election.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the members of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resign;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) he is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by no less than three-fourths in number of the Directors pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Act, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Act, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Act to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Act, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

(aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under the Cayman Islands laws and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the voting rights held cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company provided that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorized corporate representative):

(A) at least two members;

(B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, it may authorize such person or persons as it thinks fit to act as its representative(s), who enjoy rights equivalent to the rights of other Shareholders, at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands or on a poll.

All Shareholders of the Company (including a Shareholder which is a Clearing House (or its nominee(s))) shall have the right to speak and vote at a general meeting except where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, in which case any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted. Otherwise, all members shall have the right to vote at a general meeting.

(iii) Annual general meetings

The Company must hold an annual general meeting in each financial year. Such meeting must be held within six months after the end of the Company's financial year unless a longer period would not infringe the rule of the Stock Exchange.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Act and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(vi) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A corporation which is a Shareholder may execute a form of proxy under the hand of a duly authorized officer. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member present in person at any general meeting. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorized officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favor of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(viii) Members' requisition for meetings

One or more members holding, as at the date of deposit of the requisition, in aggregate not less than one-tenth of the voting rights (on a one vote per share basis) in the share capital of the Company may also make a requisition to convene an extraordinary general meeting and add resolutions to the agenda of a meeting. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Act (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Act or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to members who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those members that have consented and elected to receive the summarized financial statements not less than 21 days before the general meeting.

The members shall appoint auditor(s) to hold office by an ordinary resolution of the members until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the members in general meeting by an ordinary resolution of the members or by the Board if authority is so delegated by the members.

The members may, at a general meeting remove the auditor(s) by an ordinary resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

(iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands laws, as summarized in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on September 23, 2016 subject to the Cayman Companies Act. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Act and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

Under the Cayman Companies Act, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Cayman Companies Act;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorize the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as canceled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Act. Any such shares shall continue to be classified as treasury shares until such shares are either canceled or transferred pursuant to the Cayman Companies Act.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Act, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (as revised) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Act (as revised) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary that:

(i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (as revised).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act (as revised) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Act, the Company is required to maintain at its registered office a register of directors, alternate directors and officers. The Registrar of Companies shall make available the list of the names of the current directors of the Company (and, where applicable, the current alternate directors of the Company) for inspection by any person upon payment of a fee by such person. A copy of the register of directors and officers must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar of Companies within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

(t) Economic Substance

The Cayman Islands enacted the International Tax Co-operation (Economic Substance) Act (as revised) together with the Guidance Notes published by the Cayman Islands Tax Information Authority from time to time. The Company is required to comply with the economic substance requirements from July 1, 2019 and make an annual report in the Cayman Islands as to whether or not it is carrying on any relevant activities and if it is, it must satisfy an economic substance test.

4. GENERAL

Travers Thorp Alberga, the Company's legal advisors on Cayman Islands law, has sent to the Company a letter of advice which summarizes certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Act, is available for inspection as referred to in the paragraph headed "Appendix V — Documents Delivered to the Registrar of Companies and Available on Display — Documents on Display" in this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated under the laws of the Cayman Islands on September 23, 2016 as an exempted company with limited liability. As our Company is incorporated in the Cayman Islands, our operation is subject to the relevant laws and regulations of the Cayman Islands, the Memorandum and the Articles. A summary of certain aspects of the Cayman Islands company law and our constitution is set out in "Appendix III – Summary of our Constitution and Cayman Companies Law" in this prospectus.

We have established a principal place of business in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on April 22, 2022. Ms. Lai Ho Yan has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

2. Changes in the Share Capital of our Company

Save as disclosed in "History, Reorganization and Corporate Structure – Reorganization" and "– A. Further Information about our Group – 4. Resolutions of our Shareholders," there has been no alteration in our authorized or issued share capital within the two years immediately preceding the date of this prospectus.

3. Changes in the Share Capital of Our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in Note 1 to the Accountants' Report in Appendix I.

The following sets out the changes in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus:

- On November 28, 2022, Hubei Xinlianhong was established in the PRC with an initial registered capital of RMB20,000,000 wholly owned by Wuhan Youji.

Save as disclosed above, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. Resolutions of our Shareholders

On May 21, 2024, resolutions of our Shareholders were passed pursuant to which, among other things:

(a) the Memorandum and the Articles was approved and adopted with effect from the Listing Date;

(b) subject to the conditions stated in "Structure and Conditions of the Global Offering – Conditions of the Hong Kong Public Offering" being fulfilled:

(i) the Global Offering (including the Hong Kong Public Offering, International Offering and Over-allotment Option) and the Listing were approved and our Directors were authorized to allot and issue the Offer Shares pursuant to the Global Offering;

(ii) a general unconditional mandate (the "**Issue Mandate**") was granted to our Directors to exercise all powers of our Company to allot, issue and deal with Shares, securities convertible into Shares, or options, warrants or similar rights to subscribe for Shares or such convertible securities, and to make or grant offers, agreements, or options which would or might require Shares to be issued, allotted or dealt with, whether during the continuance of the Applicable Period (as defined below) or thereafter, provided that the aggregate number of Shares so allotted or agreed to be allotted shall not exceed the aggregate of 20% of the number of Shares in issue immediate following completion of the Global Offering;

(iii) a general unconditional mandate (the "**Repurchase Mandate**") was granted to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose), provided that such number of Shares so repurchased shall not exceed 10% of the number of the Share in issue immediately following completion of the Global Offering; and

(iv) the Issue Mandate was extended by the addition to the aggregate number of the Shares which may be allotted and issued, or agreed to be allotted and issued, by our Directors pursuant to such general mandate of an amount representing the aggregate number of the Shares purchased by our Company pursuant to the Repurchase Mandate, provided that such extended amount shall not exceed 10% of the number of Shares in issue immediately following completion of the Global Offering.

Each of the general mandates referred to above will continue in force until:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Memorandum and Articles of Association, or
- revoked or varied by an ordinary resolution of the Shareholders in general meeting,

whichever occurs first (the "**Applicable Period**").

5. Repurchases of our Own Securities

The following paragraphs set out the restrictions imposed by the Listing Rules on share repurchases and provide further information about the repurchase of our own securities.

(a) Shareholders' approval

A listed company whose primary listing is on the Stock Exchange may only purchase shares on the Stock Exchange, either directly or indirectly, if (i) the shares proposed to be purchased are fully-paid up, and (ii) its shareholders have given a specific approval or a general mandate to its directors by way of an ordinary resolution passed at a general meeting.

Pursuant to a resolution passed by our Shareholders on May 21, 2024, the Repurchase Mandate was granted to our Directors, which will continue in force during the Applicable Period.

(b) Size of mandate

The total number of shares which a listed company is authorized to purchase may not exceed 10% of the number of issued shares of the company as of the date of the resolution granting the general mandate.

The exercise in full of the Repurchase Mandate, on the basis of 93,300,000 Shares in issue immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), could accordingly result in up to 9,330,000 Shares being repurchased by our Company.

(c) Reasons for repurchases

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Source of funds

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with its Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the proposed repurchases were to be carried out in full at any time during the Applicable Period. However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

Our Company shall not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(e) Dealing restrictions

A listed company whose primary listing is on the Stock Exchange may not make a new issue of shares or announce a proposed new issue of shares for a period of 30 days after any purchase by it of shares, whether on the Stock Exchange or otherwise (other than an issue of securities pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities, which were outstanding prior to that purchase of its own securities), without the prior approval of the Stock Exchange. In additional, a listed company shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from purchasing its shares on the Stock Exchange if that purchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

A listed company shall procure that any broker appointed by it to effect the purchase of its shares shall disclose to the Stock Exchange such information with respect to the purchases made on behalf of the company as the Stock Exchange may require.

(f) Status of purchased Shares

The listing of all shares which are purchased by a listed company (whether on the Stock Exchange or otherwise) shall be automatically cancelled upon purchase and the company shall ensure that the documents of title of purchased shares are cancelled and destroyed as soon as reasonably practicable following settlement of any such purchase.

(g) Suspension of repurchase

A listed company shall not purchase its shares on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the company to announce its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not purchase its shares on the Stock Exchange, unless the circumstances are exceptional.

In addition, the Stock Exchange may prohibit a listed company from making purchases of shares on the Stock Exchange if the Stock Exchange considers that the company has committed a breach of the Listing Rules which apply to that company.

(h) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(i) Core connected persons

A listed company shall not knowingly purchase its shares on the Stock Exchange from a core connected person and a core connected person shall not knowingly sell shares to the company on the Stock Exchange.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates have any present intention to sell any Shares to our Company.

None of our core connected persons have notified our Company that they have a present intention to sell Shares to our Company, or have undertaken not to sell any of the Shares held by them to our Company, in the event that the Repurchase Mandate is approved.

(j) General

Our Directors have undertaken to the Stock Exchange to exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contract

The following contract (not being contract entered into in the ordinary course of the business carried on or intended to be carried on by our Company) was entered into by our Group within the two years preceding the date of this prospectus and is or may be material:

(a) the Hong Kong Underwriting Agreement.

2. Our Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be material in relation to our business:

No.	Trademark	Class	Registrant	Place of registration	Registration number	Expiry date
1.	XINKANG 新康牌	1	Wuhan Youji	PRC	521684	June 19, 2030
2.	XINKANG 新康牌	17	Wuhan Youji	PRC	504788	November 19, 2029
3.	武汉有机 WUHAN YOUJI	1, 17	Wuhan Youji	Hong Kong	305706216	August 2, 2031
4.	武汉有机控股有限公司 WUHAN YOUJI HOLDINGS LTD.	1, 17	Wuhan Youji	Hong Kong	305706199	August 2, 2031

(b) Domain Names

As of the Latest Practicable Date, we had registered the following domain names which we consider to be material in relation to our business:

No.	Domain name	Registrant	Expiry date
1.	chinaorganic.com	Wuhan Youji	March 29, 2031

(c) Copyrights

As of the Latest Practicable Date, we had registered the following copyrights which we consider to be material in relation to our business:

(i) Computer software

No.	Copyright	Registered owner	Registration number	Registration date
1.	Organic Industry Pressure Control Device System V1.0 (有機實業壓力控制裝置系統V1.0)	Wuhan Youji	2014SR203264	December 26, 2013
2.	Organic Industry Pressure Intelligent Monitoring System V1.0 (有機實業壓力智慧監控系統V1.0)	Wuhan Youji	2014SR201721	November 13, 2013
3.	Organic Industry Ingredients Smart System V1.0 (有機實業配料智慧系統 V1.0)	Wuhan Youji	2014SR201612	December 17, 2012
4.	Organic Industry Feeding Intelligent Control System V1.0 (有機實業加料智控系統V1.0)	Wuhan Youji	2014SR201552	December 5, 2012
5.	Organic Industry Smart Temperature Control System V1.0 (有機實業智慧溫控系統V1.0)	Wuhan Youji	2014SR201635	November 14, 2012
6.	Organic Industry Flow Intelligent Control System V1.0 (有機實業流量智控系統V1.0)	Wuhan Youji	2014SR201610	November 7, 2012

(ii) Works

No.	Copyright	Registered owner	Registration number	Registration date
1.	Wuhan Youji Logo (武漢有機企業LOGO)	Wuhan Youji	鄂作登字-2023-F-00002561	December 30, 2022

(d) Patents

As of the Latest Practicable Date, we had registered the following patents which we consider to be material in relation to our business:

No.	Patent	Patentee	Patent number	Patent type	Registration date
1.	A reactor for continuous reaction and devolatilization (一種用於連續反應與脫揮的反應器)	Wuhan Youji	2020223171782	Utility model	October 15, 2020
2.	A kind of tail gas absorption treatment device for sodium benzoate production (一種苯甲酸鈉生產用的尾氣吸收處理裝置)	Wuhan Youji	2020217784943	Utility model	August 24, 2020
3.	A kind of neutralization device for preparing potassium benzoate (一種製備苯甲酸鉀的中和裝置)	Wuhan Youji	2020217785109	Utility model	August 24, 2020
4.	A kind of continuous neutralization device for sodium benzoate production (一種苯甲酸鈉生產用的連續中和裝置)	Wuhan Youji	202021791192X	Utility model	August 24, 2020
5.	A dual-shaft material continuous mixing reaction device (一種雙軸式物料連續混合反應裝置)	Wuhan Youji	2020217641668	Utility model	August 21, 2020
6.	A catalyst intermittent loop reactor (一種催化劑間歇循環反應釜)	Wuhan Youji	2020217641672	Utility model	August 21, 2020
7.	A continuous mixing reaction device for high viscosity materials (一種高粘度物料連續混合反應裝置)	Wuhan Youji	2020217641742	Utility model	August 21, 2020

No.	Patent	Patentee	Patent number	Patent type	Registration date
8.	Batch reactor (間歇反應裝置)	Wuhan Youji	2020217774316	Utility model	August 21, 2020
9.	A spliced clapboard for a partition tower (一種用於間壁塔的拼接隔板)	Wuhan Youji	2020217539585	Utility model	August 20, 2020
10.	Method for recovering perfume grade benzyl benzoate from benzoic acid rectification raffinate (從苯甲酸精餾殘液中回收香料級苯甲酸苄酯的方法)	Wuhan Youji	2018113380488	Invention	November 12, 2018
11.	Reusable high-efficiency activated carbon adsorption and decolorization device (可重複套用的高效活性炭吸附脱色裝置)	Wuhan Youji	2018203076078	Utility model	March 5, 2018
12.	Decolorization method of benzoic acid heavy by-product benzyl benzoate (苯甲酸重副產物苯甲酸苄酯的脱色方法)	Wuhan Youji	2017107497964	Invention	August 28, 2017
13.	Reaction heat recovery device during liquid-phase catalytic oxidation of toluene (甲苯液相催化氧化過程中反應熱回收裝置)	Wuhan Youji	2017209255560	Utility model	July 25, 2017
14.	Device and method for continuous production of spherical sodium benzoate (連續生產球狀苯甲酸鈉的裝置及方法)	Wuhan Youji	201610785892X	Invention	August 31, 2016
15.	The production method of benzonitrile (苯甲腈的製造方法)	Wuhan Youji	2013100024514	Invention	January 4, 2013
16.	The purification method of benzoic acid (苯甲酸的精製方法)	Wuhan Youji	201010568840X	Invention	November 29, 2010
17.	A kind of new technology of p-xylylene dimethyl ether manufacturing method (一種對苯二甲基二甲醚製造方法的新工藝)	Qianjiang Xinyihong	2013102013660	Invention	May 27, 2013

No.	Patent	Patentee	Patent number	Patent type	Registration date
18.	Method for treating high boilers in industrial benzyl alcohol (工業苯甲醇中高沸物處理方法)	Qianjiang Xinyihong	2020105868961	Invention	June 24, 2020
19.	Vacuum sampling device for low and medium viscosity materials of epoxy resin (環氧樹脂類中低黏度物料真空取樣裝置)	Wuhan Youji	2021225844565	Utility model	October 26, 2021
20.	Vacuum sampling device for high viscosity materials such as polyester and polyurethane insulating paints (聚酯、聚氨酯絕緣漆類高黏度物料真空取樣裝置)	Wuhan Youji	2021225846024	Utility model	October 26, 2021
21.	Bubble tower apparatus and its method for the production of benzoic acid by oxidation of toluene in liquid phase (鼓泡塔裝置及其用於甲苯液相氧化生產苯甲酸的方法)	Wuhan Youji	2019104196343	Invention	May 20, 2019
22.	The method for synthesizing benzyl acetate with the use of a combined catalytic system (利用組合催化體系合成乙酸苄酯的方法)	Qianjiang Xinyihong	2021101953813	Invention	February 20, 2021
23.	The wastewater treatment in the process of industrial production of benzyl alcohol (苯甲醇工業生產的廢水處理方法)	Qianjiang Xinyihong	202010585920X	Invention	June 24, 2020
24.	The automatic oil-water rapid separation device for active diluent of epoxy resin (環氧活性稀釋劑自動化油水快速分離裝置)	Wuhan Youji	2022207037312	Utility model	March 29, 2022
25.	The high-efficiency circulation and filtration system (高效循環過濾系統)	Wuhan Youji	2022208217435	Utility model	April 11, 2022

No.	Patent	Patentee	Patent number	Patent type	Registration date
26.	The energy efficiency crystallization and purification system for benzoic acid (高效節能苯甲酸結晶提純系統)	Wuhan Youji	202221119113X	Utility model	May 11, 2022
27.	The high-efficiency circulating mixing and filtration system for insulating paint (絕緣漆高效循環混料過濾系統)	Wuhan Youji	2022209905004	Utility model	April 27, 2022
28.	The wastewater treatment device for abnormal production of benzoic acid (苯甲酸非正常生產廢水處理裝置)	Wuhan Youji	2022229539208	Utility mode	November 7, 2022
29.	A chlorohydrin rubber production device (一種氯醇橡膠生產裝置)	Wuhan Youji	202320075976X	Utility mode	January 9, 2023
30.	Method of continuous synthesis of synthetic chlorol rubber using kneading reactors (利用捏合反應器連續化合成氯醇橡膠的方法)	Wuhan Youji	2020111144350	Invention	October 15, 2020
31.	System and method for continuous production of high-quality, highly selective benzoaldehyde and benzoic acid using injection circulation reactors (利用噴射環流反應器連續化生產優質高選擇性苯甲醛和苯甲酸的系統及方法)	Wuhan Youji	2020104902895	Invention	June 2, 2020
32.	The purification method of industrial benzene methanol (工業苯甲醇提純方法)	Qianjiang Xinyihong	2020105859233	Invention	June 24, 2020

No.	Patent	Patentee	Patent number	Patent type	Registration date
33.	A method for synthesizing benzonitrile through recycling and reusing by-products of benzinated melamine (一種苯代三聚氰胺副產物回收再利用合成苯甲腈的方法)	Wuhan Youji	2021109162016	Invention	August 11, 2021
34.	Method for reducing acid value in benzaldehyde using composite packed columns (用複合填料柱降低苯甲醛中酸值的方法)	Wuhan Youji	202210056462X	Invention	January 18, 2022
35.	Method for recovering food-grade benzaldehyde from benzoic acid distillation low boilers (從苯甲酸精餾低沸物中回收食品級苯甲醛的方法)	Wuhan Youji	2021107547705	Invention	July 5, 2021
36.	Preparation method of electronic grade benzinated melamine (電子級苯代三聚氰胺的製備方法)	Wuhan Youji	2022109118412	Invention	July 29, 2022
37.	A method and device for production of benzoyl alcohol to reduce consumption of pure alkali (一種降低純鹼消耗的苯甲醇生產方法和裝置)	Qianjiang Xinyihong	2022112019499	Invention	September 29, 2022

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) Interests of our Directors and chief executive

Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), the interests or short positions of our Directors and chief executive in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, are set out below:

(i) Interest in our Company

Name of Director or chief executive	Nature of interest(1)	Number of Shares or underlying Shares held	Approximate percentage of interest after the Global Offering(2)
Mr. Gao Lei(3)	Interest in controlled corporation	50,150,842	53.75%
Mr. Shen Yingming(4)	Interest in controlled corporation	12,537,710	13.44%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 93,300,000 Shares in issue immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised).

(3) As of the Latest Practicable Date, Vastocean Capital Limited was wholly owned by Mr. Gao. By virtue of the SFO, Mr. Gao is deemed to be interested in the Shares held by Vastocean Capital Limited.

(4) As of the Latest Practicable Date, SYM Holdings Limited was wholly owned by Mr. Shen. By virtue of the SFO, Mr. Shen is deemed to be interested in the Shares held by SYM Holdings Limited.

(ii) Interest in our associated corporations

So far as our Directors are aware, immediately following the completion of the Global Offering, no Directors or the chief executive will, directly or indirectly, be interested in the shares or underlying shares of the associated corporations of our Company.

(b) Interests of our Substantial Shareholders

Save as disclosed in "Substantial Shareholders," our Directors and chief executive are not aware of any person (other than a Director or chief executive of our Company) who will have an interest or a short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group.

2. Directors' Service Contracts and Letters of Appointment

Each of our executive Directors has entered into a service contract with our Company on May 30, 2024, and we have issued letters of appointment to each of our independent non-executive Directors on May 30, 2024. The terms of appointment under the service contracts and letters of appointment are for an initial term of three years from the Listing Date, subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors have entered, or have proposed to enter, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' Remuneration

The aggregate remuneration paid and benefits in kind granted to our Directors by our Group in respect of the year ended December 31, 2023 was RMB2.4 million. For details of our Directors' emoluments during the Track Record Period, please refer to note 8 to the Accountants' Report in Appendix I to this prospectus.

Under the arrangements in force at the date of this prospectus, we estimate the aggregate remuneration payable to, and benefits in kind receivable by, our Directors by our Group in respect of the year ending December 31, 2024 to be approximately RMB4.6 million.

D. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty would be likely to fall upon any member of our Group.

2. Litigation

Save as disclosed in this prospectus and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option).

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor will receive a fee of US$1.35 million for acting as a sponsor for the Listing.

4. No Material Adverse Change

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since December 31, 2023 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

5. Qualification and Consents of Experts

This prospectus contains statements made by the following experts:

Name	Qualification
BOCOM International (Asia) Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO, acting as the Sole Sponsor of the Listing
Jingtian & Gongcheng	Qualified PRC lawyers
Travers Thorp Alberga	Legal advisors as to Cayman Islands law
Ernst & Young	Certified public accountants and registered public interest entity auditor
Frost & Sullivan (Beijing) Inc.	Industry consultant

As of the Latest Practicable Date, none of the experts named above had any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

The experts named above have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case maybe) and references to their names included in the form and context in which they are respectively included.

6. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

7. Preliminary Expenses

We have not incurred any material preliminary expenses.

8. Binding Effect

This prospectus shall have the effect, where an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

9. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

10. Miscellaneous

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group, and no Directors, promoters or experts named in "– D. Other Information – 5. Qualification and Consents of Experts" have received any such payment or benefit;

(ii) no capital of any member of our Group has been issued or is proposed to be issued for cash or issued as fully or partly paid up otherwise than in cash;

(iii) none of our Directors or the experts named in "– D. Other Information – 5. Qualification and Consents of Experts" have any interest, direct or indirect, in the promotion of, or in any assets which have been, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group; and

(iv) no commissions (but not including commissions to sub-underwriters) have been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares or debentures of our Company.

(b) Save as disclosed in this prospectus:

(i) there is no arrangement under which future dividends are waived or agreed to be waived;

(ii) our Company has no outstanding convertible debt securities or debentures;

(iii) there are no founder, management or deferred shares in our Company or any of our subsidiaries;

(iv) no capital of any member of our Group is under option, or is agreed conditionally or unconditionally to be put under option;

(v) there has not been any interruption in the business of our Group which may have or have had a significant effect on our financial position in the 12 months immediately preceding the date of this prospectus; and

(vi) none of our Directors are materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) the written consents referred to in "Appendix IV — Statutory and General Information – D. Other Information – 5. Qualification and Consents of Experts" in this prospectus; and

(b) a copy of the material contract referred to in "Appendix IV — Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contract" in this prospectus.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.chinaorganic.com** for a period of 14 days from the date of this prospectus:

(a) the Memorandum and Articles of Association;

(b) the audited consolidated financial statements of our Group for the Track Record Period;

(c) the Accountants' Report for the Track Record Period issued by Ernst & Young, the text of which is set out in Appendix I;

(d) the report on the unaudited pro forma financial information of our Group issued by Ernst & Young, the text of which is set out in Appendix II;

(e) the letter of advice issued by Travers Thorp Alberga, our legal advisors as to Cayman Islands law, summarizing certain aspects of the company law of the Cayman Islands referred to in Appendix III;

(f) the legal opinions issued by Jingtian & Gongcheng, our legal advisors as to PRC law, in respect of the general matters and property interests of the Group in the PRC;

(g) the industry report issued by Frost & Sullivan;

(h) the material contract referred to in "Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contract" in Appendix IV;

(i) the written consents referred to in "Statutory and General Information – D. Other Information – 5. Qualification and Consents of Experts" in Appendix IV;

(j) the service contracts and letters of appointment referred to in "Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders – 2. Directors' Service Contracts and Letters of Appointment" in Appendix IV; and

(k) the Cayman Companies Act.

武漢有機控股有限公司
WUHAN YOUJI HOLDINGS LTD.