

---

## BUSINESS

---

### OVERVIEW

We are a top-ranked 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 widely recognized in the synthetic organic chemical<sup>1</sup> industry and used for food preservatives, household chemicals, animal feed acidifier and synthetic intermediates for agrochemical and pharmaceutical uses.

Our leading position in toluene derivative 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 of benzoic acid, sodium benzoate and benzyl alcohol in China in terms of the sales revenue in 2022, representing 59.1%, 37.3% and 36.0% of the PRC total market revenue for these products in 2022, respectively. In the global market, we ranked second among benzoic acid manufacturers, sodium benzoate manufacturers and benzyl alcohol manufacturers in 2022, accounting for 35.7%, 21.8% and 21.3% 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 and regions. 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 high-quality 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 major regional industry participants. We have established long-term business relationships with these companies, which enable our customers to procure high-quality products at competitive prices while providing us with a solid customer base. Sales to our Fortune 500 customers contributed approximately 7.7%, 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.

1. Our Group’s products are organically-synthesised chemicals, and do not contain genetically modified organisms.

---

## BUSINESS

---

According to the Frost & Sullivan Report, the global sales volumes of benzoic acid, sodium benzoate and benzyl alcohol are expected to reach approximately 345,200 tons, 207,800 tons and 224,100 tons in 2027, 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 our 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 delivery of diversified and cost-efficient 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 have 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

---

## BUSINESS

---

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 have obtained 32 patents for inventions and 46 patents for utility models as well as 13 pending patent applications.

We have gained a strong reputation and recognition in the industry as a result of our high quality of 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 high-quality 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 have an in-house sales team comprising 29 employees and have 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

---

## BUSINESS

---

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 [REDACTED], 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 industry top-ranked manufacturer for the production of toluene derivative products for a variety of use in domestic and industrial applications**

We are a leading provider of toluene derivative 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 of benzoic acid, sodium benzoate and benzyl alcohol in China in terms of sales revenue in 2022, representing 59.1%, 37.3% and 36.0% of the PRC total market revenue, respectively. In the global market, we ranked second among manufacturers for benzoic acid, sodium benzoate and benzyl alcohol in 2022, accounting for 35.7%, 21.8% and 21.3% 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.

---

## BUSINESS

---

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 high-quality products and services to our global customers across more than 70 countries and regions.

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



---

## BUSINESS

---

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 includes 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 78 patents, including 32 patents for invention. We also had 13 pending patent application in the PRC. During the Track Record Period, we have 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 gross profit margin of 28.6% in 2022.

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

---

## BUSINESS

---

water treatment in 2020 and enhanced the processing capacity of our facilities, which copes with our production capacity expansion plan 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, and we publish announcements about our environmental protection information on a quarterly basis. 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. For the years ended 2021, 2022 and 2023, the gross profit margin of our self-produced products were 28.7%, 24.3% and 14.1%, respectively. 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 the Latest Practicable Date, our distribution network comprises over 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

---

## BUSINESS

---

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 and regions. As of the Latest Practicable Date, we have 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. Pursuant to the currently effective strategic cooperation framework agreement: (i) the strategic cooperation framework agreement will be effective until October 1, 2027; (ii) Customer B will purchase feed-grade benzoic acid exclusively from us for use in mainland China, and we will sell feed-grade benzoic acid labelled in Customer B's product code and product name exclusively to Customer B both for use within and outside of mainland China, except for a reserved customer of us; (iii) 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; (iv) to retain its right as exclusive distributor, Customer B has to annually purchase a certain amount of feed-grade benzoic acid from us, 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; and (v) the purchase price will primarily be determined based on the market price with certain other factors taking into account. 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.



---

## BUSINESS

---

During the Track Record Period, we have conducted business with more than 2,700 corporate customers, covering more than 70 countries and regions. 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 have 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 document. 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

---

## BUSINESS

---

benzoic acid, sodium benzoate and benzyl alcohol increased from approximately 234,600 tons, 168,500 tons and 138,600 tons in 2017 to 295,500 tons, 215,300 tons and 199,200 tons in 2022, representing a CAGR of 4.7%, 5.0% and 7.5%, 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 345,200 tons, 207,800 tons and 224,100 tons in 2027, representing a CAGR of 7.8%, 3.2% and 3.7% 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 [REDACTED] and our internal resources. For details about our production plant expansion plan and use of proceeds from the [REDACTED], please refer to “— Business Expansion Plans — Production Plant Expansion Plan” and “Future Plans and Use of Proceeds — Use of Proceeds” in this document.

### **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 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 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.

---

## BUSINESS

---

Domestically, we will 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. As part of our expansion plan, 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. The manufacturing facility of Hebei Kangshi (the “**Hebei Kangshi Production Plant**”) is primarily designed for the manufacturing of benzoic acid and its derivatives. We hold 51% of interests in Hebei Kangshi and obtained the Working Permit on Construction Works (建築工程施工許可證) for this production plant on September 29, 2020. The construction of our Hebei Kangshi Production Plant was completed, and production commenced in January 2023.

In addition, we entered into a cooperation agreement on September 10, 2020 with SINOPEC Jiangnan Salt Chemical Hubei Co., Ltd. (中石化江漢鹽化工湖北有限公司, the “**Jiangnan Salt Chemical**”), a wholly-owned subsidiary of SINOPEC. Pursuant to the agreement, our Company and Qianjiang Xinyihong will receive the most favored treatment for the sales and purchase of liquid caustic soda, which is the primary raw material for the production of sodium benzoate, from Jiangnan Salt Chemical. 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 has registered two trademarks under our “XINKANG (新康牌)” brand, 78 patents, including 32 patents for invention. In addition, we also have 13 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 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

---

## BUSINESS

---

approximately 59,100 tons in 2017 to 72,400 tons in 2022, and this growth trend is expected to continue at a CAGR of 6.9% from 2023 to 2027. 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 24,200 tons in 2017 to 39,600 tons in 2022, and it is estimated that it will continue to grow in the near future at a CAGR of 9.4% from 2023 to 2027. 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.

### MARKET DEVELOPMENTS AND IMPACT OF THE COVID-19 PANDEMIC IN 2023

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, international trading restrictions 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. 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. 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

---

## BUSINESS

---

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 is much slower than expected and there is significant uncertainties in the economy globally and also in the PRC, as such, the downstream customers, mainly in the food additives, feed additives, pesticide intermediate, and pharmaceutical intermediate were adversely impacted. In addition, the increase in market supply of toluene oxidation products further intensified the market competition. These circumstances exert significant pressure on our pricing as the downstream demand was lower than the amount of supply available in the market, and this circumstance is a reversal of the marketing condition in 2022 when demand is higher than the supply, which positioned chemical manufacturers in an ideal market position.

As a result of the foregoing, the Group needs to lower the selling prices of its products in order to effectively compete with its competitors for limited sales orders so as to maintain the utilization rate of its production facilities at an optimal level and to keep our market share. The Group's 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, 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.

The market environment and our performance has gradually stabilized as the above impacts have regressed. According to Frost & Sullivan, entities in the PRC chemical materials and manufacturing industry has recorded a drop in net profit in 2023 as compared to 2022, but the drop has been narrowing throughout the period 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 has stabilized and gradually improved throughout 2023. 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, which is expected to be completed in 2025; (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 have 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.



## BUSINESS

### 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)
<b>Revenue from self-produced products</b>	<b>2,213,551</b>	<b>79.4</b>	<b>248,462</b>	<b>2,721,500</b>	<b>86.8</b>	<b>318,818</b>	<b>2,221,064</b>	<b>83.0</b>	<b>279,147</b>
<i>Toluene oxidation products</i>	<i>1,311,522</i>	<i>47.0</i>	<i>161,028</i>	<i>1,555,182</i>	<i>49.6</i>	<i>169,962</i>	<i>1,356,387</i>	<i>50.7</i>	<i>164,071<sup>(1)</sup></i>
– 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
<i>Toluene chlorination products</i>	<i>487,513</i>	<i>17.5</i>	<i>51,217</i>	<i>831,305</i>	<i>26.5</i>	<i>61,988</i>	<i>587,599</i>	<i>21.9</i>	<i>52,299</i>
– 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
<i>Benzoic acid ammonification products</i>	<i>237,010</i>	<i>8.5</i>	<i>7,921</i>	<i>130,392</i>	<i>4.2</i>	<i>4,619</i>	<i>116,250</i>	<i>4.3</i>	<i>6,675</i>
– 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
<i>Other fine chemical products</i>	<i>177,506</i>	<i>6.4</i>	<i>28,296</i>	<i>204,621</i>	<i>6.5</i>	<i>82,249</i>	<i>160,828</i>	<i>6.1</i>	<i>56,102</i>
<b>Revenue from products trading</b>	<b>575,926</b>	<b>20.6</b>	<b>113,840</b>	<b>412,336</b>	<b>13.2</b>	<b>57,030</b>	<b>456,039</b>	<b>17.0</b>	<b>67,000</b>
<i>Toluene product trading</i>	<i>541,042</i>	<i>19.4</i>	<i>112,272</i>	<i>360,815</i>	<i>11.6</i>	<i>54,823</i>	<i>320,085</i>	<i>12.0</i>	<i>49,295</i>
<i>Other products trading</i>	<i>34,884</i>	<i>1.2</i>	<i>1,568</i>	<i>51,521</i>	<i>1.6</i>	<i>2,207</i>	<i>135,954</i>	<i>5.0</i>	<i>17,705</i>
<b>Total</b>	<b>2,789,477</b>	<b>100.0</b>	<b>362,302</b>	<b>3,133,836</b>	<b>100.0</b>	<b>375,848</b>	<b>2,677,103</b>	<b>100.0</b>	<b>346,147</b>

Note:

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

---

## BUSINESS

---

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	:	<ul style="list-style-type: none"><li>• as a feed additive to replace antibiotics</li><li>• as a food preservative</li><li>• as intermediate in food and medicine</li></ul>

#### ***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	:	<ul style="list-style-type: none"><li>• as a food preservative</li><li>• as a pickling agent</li></ul>

### **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.

---

## BUSINESS

---

### *Description of benzyl chloride*

Raw materials	:	toluene and chlorine
Formula	:	$C_7H_7Cl$
CAS number	:	100-44-7
Scope of applications	:	<ul style="list-style-type: none"><li>• use as a chemical intermediate</li><li>• used in the synthesis of amphetamine-class drugs</li><li>• used in preparation of Grignard reagent</li></ul>

### *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	:	<ul style="list-style-type: none"><li>• used as a general solvent</li><li>• used in the soap, perfume, and flavor industries</li><li>• used as a local anesthetic, especially with epinephrine</li></ul>

### **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

---

## BUSINESS

---

- 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.

---

## BUSINESS

---

### *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 <sub>8</sub> H <sub>9</sub> Cl
CAS number	:	104-82-5
Scope of applications	:	<ul style="list-style-type: none"><li>as an intermediate of organic synthesis, used in the manufacture of p-methyl benzyl alcohol, etc.</li></ul>

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.



## BUSINESS

### 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	1,224,453	43.9	30.0%	1,624,669	51.8	26.0%	1,226,480	45.8	14.9%
Distribution sales	989,098	35.5	26.9%	1,096,831	35.0	21.8%	994,584	37.2	13.2%
Products trading	575,926	20.6	0.6%	412,336	13.2	9.2%	456,039	17.0	3.5%
<b>Total</b>	<b>2,789,477</b>	<b>100.0</b>	<b>22.9%</b>	<b>3,133,836</b>	<b>100.0</b>	<b>22.3%</b>	<b>2,677,103</b>	<b>100.0</b>	<b>12.3%</b>

### 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 the Latest Practicable Date, we had established an extensive distribution network comprising over 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 have established an overseas distribution network comprising 251 distributors as of the Latest Practicable Date. 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.

---

## BUSINESS

---

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, 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;

---

## BUSINESS

---

- 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;

## BUSINESS

- (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.

### *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. The following table sets forth changes 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 <sup>(1)</sup>	143	181	143
Decrease of distributors <sup>(2)</sup>	142	154	164
Number of distributors at the end of year	429	456	435

*Note:*

- (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.

## BUSINESS

The following table sets forth changes of our distributors in the global 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 <sup>(1)</sup>	61	94	114
Decrease of distributors <sup>(2)</sup>	33	28	95
Number of distributors at the end of year	166	232	251

*Note:*

- (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. The aggregate revenue generated from the previous year attributed to the distributors who did not transact with us in the PRC in the present year were RMB35.2 million, RMB38.8 million and RMB79.0 million for 2021, 2022 and 2023, respectively. In addition, for the same periods, the average revenue attributed to our new addition distributors in the global market were RMB812,247, RMB483,868 and RMB396,244, respectively, and the average revenue generated from the previous year attributed to the distributors who did not transact with us in the global market in the present year were RMB216,119, RMB285,132 and RMB514,787, respectively, for the corresponding years.

During the Track Record Period, there were 595, 688 and 684 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. During the Track Record Period and up to the Latest Practicable Date, there was 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



## BUSINESS

purchase orders, they cannot be returned except for defective products. During the Track Record Period, there is 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-based 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, 45.6% 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 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		Background	Business relationship since	Credit term
	RMB'000	% of total distributor 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

## BUSINESS

Five largest distributors	Sales amount		Background	Business relationship since	Credit term
	<i>RMB'000</i>	<i>% of total distributor sales</i>			
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		Background	Business relationship since	Credit term
	<i>RMB'000</i>	<i>% of total distributor sales</i>			
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

## BUSINESS

For the year ended December 31, 2023

Five largest distributors	Sales amount		Background	Business relationship since	Credit term
	RMB'000	% of total distributor 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)	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	10 days
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

### ***Products trading***

In addition to direct and distribution sales of our self-produced products, we also purchase products from our suppliers and resell them to our customers in the PRC and global markets. All products trading were conducted through direct sales 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 business to sell our surplus

## BUSINESS

inventory by obtaining information and tracking market opportunities on the Independent Commodity Intelligence Services to improve our cash-flow position and capitalize on the potential price appreciation opportunity for certain raw materials. We also engage in other products trading business when we observe demands and potential profitability for products we purchased.

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 and regions 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		
	<i>RMB'000</i>	<i>% of revenue</i>	<i>Gross profit margin</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>Gross profit margin</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>Gross profit margin</i>
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%
<b>Total</b>	<b><u>2,789,477</u></b>	<b><u>100.0</u></b>	<b><u>22.9%</u></b>	<b><u>3,133,836</u></b>	<b><u>100.0</u></b>	<b><u>22.3%</u></b>	<b><u>2,677,103</u></b>	<b><u>100.0</u></b>	<b><u>12.3%</u></b>

*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

---

## BUSINESS

---

### *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.

### *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, sodium benzoate and benzyl alcohol in the global market in terms of the sales revenue in 2022, accounting for 35.7%, 21.8% and 21.3% 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 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 foreign 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.

## BUSINESS

### 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 <sup>(Note)</sup>	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



## BUSINESS

### 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 <sup>(Note)</sup>	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 <sup>(Note)</sup>	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

## BUSINESS

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:* 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 segment of our operations. Therefore, certain customers with relatively short business relationship with us may become our 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. 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

---

## BUSINESS

---

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 [REDACTED], 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 expected credit losses on trade receivables amounted to RMB184,000 and RMB314,000, respectively. Our expected credit gains due to reversal of impairment 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 — Critical Accounting Policies and Estimates — Critical Accounting Estimates — Provision for expected credit losses on trade receivables” in this document.

### 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 for the corresponding years. Our Group has fully ceased the acceptance of Third Party Payments as of January 1, 2022.

---

## BUSINESS

---

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, and unavailable to smaller Downstream Customers. To the best knowledge of the Directors having consulted with certain Relevant Customers,

---

## BUSINESS

---

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.

---

## BUSINESS

---

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.



---

## BUSINESS

---

### 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 has 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 are 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

---

## BUSINESS

---

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 a long-term contracts that specifies 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

## **BUSINESS**

---

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 at capacity on a monthly basis, and may sell its surplus raw materials 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

---

## BUSINESS

---

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, we have multiple sources for most of 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 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.

## BUSINESS

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. 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 [REDACTED], 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 <sup>(1)</sup>	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
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
Jiangnan 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

## BUSINESS

### *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 <sup>(1)</sup>	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
Jiangnan 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 <sup>(1)</sup>	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



## BUSINESS

Five largest suppliers	Purchase amount		Type of products supplied	Background	Payment method	Business relationship since	Credit term
	RMB'000	%					
Yuanda Group <sup>(2)</sup>	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 <sup>(3)</sup>	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

---

## BUSINESS

---

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, which was primarily due to the market-oriented pricing strategy we adopted in 2022 and 2023 for our toluene oxidation products. 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, and the Sole Sponsor concurs, 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, 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, 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 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.

## BUSINESS

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 <i>(sq. m.)</i>	Aggregate gross floor area <i>(sq. m.)</i>	Principal products produced as of the Latest Practicable Date
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
<b>Total</b>		<b><u>326,618.9</u></b>	<b><u>78,256.0</u></b>	

### 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
<b>Wuhan Production Plant</b>			
Designed Production Capacity <sup>(1)</sup> (tons)	302,500	302,500	302,500
Actual Production Volume <sup>(2)</sup> (tons)	309,683	371,579	314,679
Utilization Rate <sup>(3)</sup> (%)	102.4%	122.8%	104.0%
<b>Qianjiang Xinyihong Production Plant</b>			
Designed Production Capacity <sup>(1)</sup> (tons)	144,040	144,040	144,040
Actual Production Volume <sup>(2)</sup> (tons)	132,190	132,050	124,414
Utilization Rate <sup>(3)</sup> (%)	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 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.

## BUSINESS

- (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 used as raw upstream products 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 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, which was due to (i) certain self-produced products manufactured by our Group can be sold as final products and used as raw upstream products for the production of refined products of the same category, and (ii) technical improvements adopted by our Group in its manufacturing process. These utilisation rates were calculated based on the manufacturing process, where the intermediary products in (i) above are taken into account as they did consume machine hours. 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.

---

## BUSINESS

---

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:

<u>Types of machinery/equipment</u>	<u>Principal usage or function</u>
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

---

### BUSINESS COOPERATIONS 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. 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.

#### 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



---

## BUSINESS

---

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*

We 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. We have 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.

SINOPEC is responsible for the operation and manufacturing activities of Hebei Kangshi while our Group is in charge of the sales activities. 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 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, we 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. According to the terms of the entrusted processing service agreement, we will supply raw materials to Hebei Kangshi. 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. 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. The minimum production volume under the entrusted processing service agreement is 4,000 tons per month.

## BUSINESS

### Production Plant 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 <sup>(1)</sup>		Expected payback years since production <sup>(2)</sup>
			use of proceeds	internal resources	
<i>(RMB'million)</i>					
Hubei Xinxuanhong Production Plant	Phase I	July 2023	[REDACTED]	177.6	3
	Phase II	N/A <sup>(3)</sup>	[REDACTED]	497.8	6.9
<b>Total</b>			<b>[REDACTED]</b>	<b>675.4</b>	

Notes:

- (1) expected to be financed by a combination of [REDACTED] 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 expansion plan 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 2026.

### 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 newly 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. 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 document.

## BUSINESS

### 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 <sup>(2)</sup>	Qianjiang Xinyihong Production Plant <sup>(2)</sup>	Wuhan Production Plant <sup>(2)</sup>	Qianjiang Xinyihong Production Plant <sup>(2)</sup>	Hubei Xinxuanhong Production Plant <sup>(3)</sup>	Wuhan Production Plant <sup>(2)</sup>	Qianjiang Xinyihong Production Plant <sup>(2)</sup>	Hubei Xinxuanhong Production Plant <sup>(3)</sup>	Wuhan Production Plant <sup>(2)</sup>	Qianjiang Xinyihong Production Plant <sup>(2)</sup>	Hubei Xinxuanhong Production Plant <sup>(3)</sup>	
	(tons)		(tons)									
<i>Toluene oxidation products</i>												
– 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	–	–	
<i>Toluene chlorination products</i>												
– benzyl chloride	–	74,000	–	74,000	–	–	74,000	–	–	74,000	50,000	
– benzyl alcohol	–	60,000	–	60,000	–	–	60,000	–	–	60,000	–	
<i>Benzoic acid ammonification products</i>												
– benzonitrile	10,000	–	10,000	–	–	10,000	–	–	10,000	–	–	
– benzoguanamine	5,000	–	5,000	–	–	5,000	–	–	5,000	–	–	
<i>Other fine chemical products</i>	10,500	10,040	10,500	10,040	40,000	10,500	10,040	40,000	10,500	10,040	40,000	
<b>Subtotal</b>	<b>302,500</b>	<b>144,040</b>	<b>302,500</b>	<b>144,040</b>	<b>40,000</b>	<b>302,500</b>	<b>144,040</b>	<b>40,000</b>	<b>302,500</b>	<b>144,040</b>	<b>90,000</b>	
<b>Designed Annual Production Capacity<sup>(1)</sup></b>	<b><u>446,540</u></b>		<b><u>486,540</u></b>			<b><u>486,540</u></b>			<b><u>536,540</u></b>			

In addition, as at the Latest Practicable Date, our joint venture operate the Hebei Kangshi Production Plant. We also plan to establish the Thailand Production Plant through the joint venture with Company Y. Both production facilities 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.

*Note:*

- (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 Plant 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. The Phase II production is expected to commence in stages starting from the second half of 2026. It is anticipated that the total designed annual production capacity will be up to 300,000 tons by 2029.

## BUSINESS

### 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
	<i>(RMB'000)</i>	
Construction fees	[REDACTED]	[REDACTED]
Acquisition of machinery and equipment	[REDACTED]	[REDACTED]
Labor costs and related training costs	[REDACTED]	[REDACTED]
Miscellaneous costs <sup>(1)</sup>	[REDACTED]	[REDACTED]
<b>Total</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>

*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 [REDACTED] and internal resources. As of December 31, 2023, we had incurred capital expenditures of RMB55.1 million for the expansion plan 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 document.

### Considerations when determining our production plant 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.

## BUSINESS

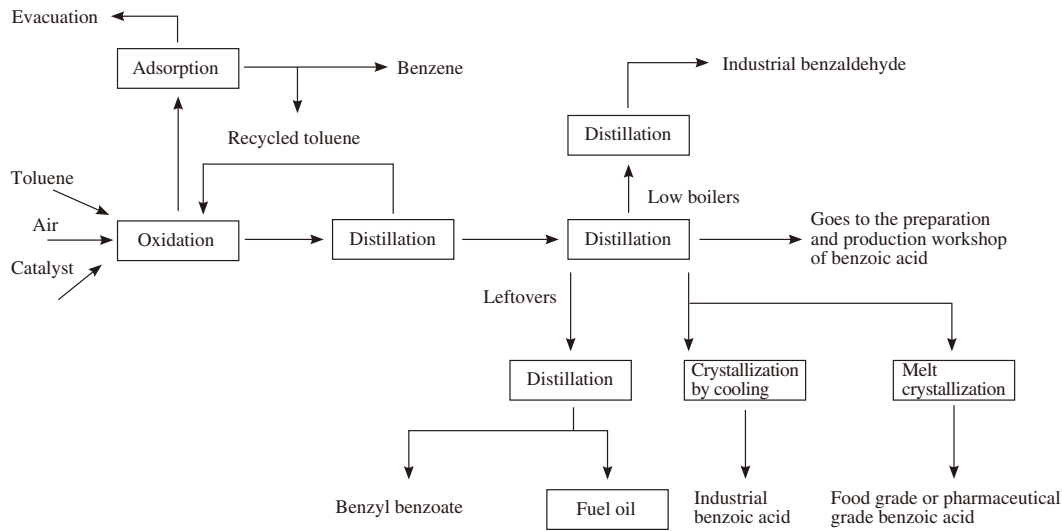
### PRODUCTION PROCESS

#### 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.

---

## BUSINESS

---

*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 consists 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 have 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



---

## BUSINESS

---

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/subsidiary	Date of issue	Expiry date <sup>(1)</sup>	Detailed information
<b>ISO 22000:2018</b> 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
<b>ISO 9001:2015</b> Quality Management System Certification: issued by China Quality Certification Center			
Wuhan Production Plant	March 5, 2021	March 11, 2024	Quality management system for design, production and sales
Qianjiang Xinyihong Production Plant	April 29, 2021	March 8, 2024	Quality management system for design, production and sales
<b>FSSC 22000</b> Food Safety Management System: issued by Intertek Certification Limited			
Wuhan Production Plant	April 5, 2022	April 4, 2025	Food safety management system

## BUSINESS

Production plant/subsidiary	Date of issue	Expiry date <sup>(1)</sup>	Detailed information
<b>FAMI-QS Certification:</b> issued by SGS			
Wuhan Production Plant	August 24, 2023	August 23, 2026	Certification for the production of special ingredients for animal feeds
<b>BRC:</b> issued by SGS			
Wuhan Production Plant	July 27, 2023	August 17, 2024	Food safety standard
<b>KOSHER:</b> 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
<b>HALAL (ARA):</b> issued by LPPOM MUI			
Qianjiang Xinyihong Production Plant	December 7, 2022	December 6, 2026	Certification of permissible food under traditional Islamic law
<b>GMP Certification:</b> issued by Hubei Food and Medical Products Administration			
Wuhan Production Plant	July 17, 2017	July 17, 2022 <sup>(2)</sup>	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 document.
- (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.

## **BUSINESS**

---

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

---

## BUSINESS

---

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 document.

### 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, 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

---

## BUSINESS

---

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.

## BUSINESS

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
<b>Wuhan Youji</b>		
Work Safety Licenses (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
<b>Qianjiang Xinyihong</b>		
National industrial Product Production License (全國工業產品生產許可證)	August 13, 2021	August 12, 2026
Work Safety Licenses (安全生產許可證)	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
<b>Hubei Kangxin</b>		
Permits for Trading in Hazardous Chemicals (危險化學品經營許可證)	August 28, 2023	September 2, 2026

## 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 have 78 registered patents and 13 pending patent applications in the PRC. In addition, we have 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 document.

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.



## BUSINESS

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 <i>(sq.m.)</i>	Expiry Date
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, Jiangnan 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, Jiangnan 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, Jiangnan 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, Jiangnan Salt Chemical Industrial Park, Qianjiang (潛江市江漢鹽化工業園 園區西)	68,756.0	December 20, 2072

## BUSINESS

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:

<u>No.</u>	<u>Holder of Building Ownership Certificate</u>	<u>Description/Location</u>	<u>Gross Floor Area</u> (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 “ <b>Building A</b> ”)	65,896.1
2.	Qianjiang Xinyihong	No. 1 Park Road, Jiangnan Salt Chemical Industrial Park (潛江市江漢鹽化工業園園區一路) (the “ <b>Building B</b> ”)	5,468.8
3.	Qianjiang Xinyihong	No. 1 Park Road, Jiangnan 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, Jiangnan 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, Jiangnan 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 “ <b>Wangchang Building</b> ”)	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

---

## BUSINESS

---

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

---

## BUSINESS

---

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

## BUSINESS

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:

<u>No.</u>	<u>Occupier of Buildings</u>	<u>Gross Floor Area</u> (sq.m.)	<u>Non-compliance</u>
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.

---

## BUSINESS

---

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 regarding 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) and construction planning permit (建設工程規劃許可證) from the government authorities for the Xinyihong Construction in Progress and Xinxuanhong Construction in Progress; we also had obtained the construction work commencement permit (施工許可證) for the Xinyihong 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 three 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.

Six lease agreements for the properties leased by us were not registered with the relevant PRC government authorities as of December 31, 2023. 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



## BUSINESS

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 document 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:

<u>Awards/recognitions</u>	<u>Year of issuance</u>	<u>Issuer of award</u>	<u>Recipient</u>
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.

## BUSINESS

Awards/recognitions	Year of issuance	Issuer of award	Recipient
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.
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.

---

## BUSINESS

---

### 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:

<u>Department/Function</u>	<u>Number of employees</u>
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
<b>Total</b>	<b><u><u>625</u></u></b>

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 staff costs amounted to approximately RMB44.0 million, RMB42.4 million and RMB43.0 million, which accounted for 2.0%, 1.7% and 1.8% of our total cost of sales, 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.

---

## BUSINESS

---

### 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 document.

### 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), Mr. Li Deye (李德擘), Mr. Shen Haifeng (沈海峰) and Mr. Zhou Xu (周旭). Mr. Zou is primarily responsible to oversee our ESG related matters.

We will formulate and adopt our ESG policies following the [REDACTED] 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 will be established in accordance with the standards of Appendix C2 to the Listing Rules. In particular, when setting targets for each KPI, we will 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 will be reviewed regularly to ensure that they remain appropriate to the needs of our Group.

---

## BUSINESS

---

Upon the [REDACTED], our Board will set 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 will be reviewed on an annual basis. Our Board will oversee 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 will conduct 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 document. 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 document. 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.

---

## BUSINESS

---

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 physical damages as a result of droughts, floods, inclement weather, El Nino and other phenomena 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 to our customers. These physical damages could affect our business, financial conditions, results of operation and prospects.

As advised by our PRC Legal Advisors, we have not been subject to any penalties or sanctions as a result of any breach of the applicable environmental laws and regulations in the PRC 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 “— Business Expansion Plans” in this section.



---

## BUSINESS

---

### **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 [REDACTED] 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 document.

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.

---

## BUSINESS

---

### 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.

---

## BUSINESS

---

### **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 [REDACTED], 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.

## BUSINESS

As of the Latest Practicable Date, we have 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. During the Track Record Period, our consumption of energy and water increased due to the increase in our production volume and the scale of our production. 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	
<b>Wuhan Production Plant</b>				
<b>Air pollutant and waste gas</b>				
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
<b>Wastewater<sup>(1)</sup></b>				
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

**BUSINESS**

	Year ended December 31,			Discharge Permitted Level
	2021	2022	2023	
<b>Water consumption</b>				
Total water consumption (m <sup>3</sup> )	761,979	793,008	677,381	
Water consumption intensity (m <sup>3</sup> per million RMB revenue)	342.1	310.4	301.8	
<b>Energy consumption</b>				
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	
<b>Greenhouse gas emission<sup>(2)</sup></b>				
Scope I emission (tCO <sub>2</sub> e)	27,668.2	28,083.4	26,502.9	
Scope II emission (tCO <sub>2</sub> e)	77,192.3	83,651.5	75,558.7	
<b>Qianjiang Xinyihong Production Plant</b>				
<b>Wastewater<sup>(1)</sup></b>				
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
<b>Water consumption</b>				
Total water consumption (m <sup>3</sup> )	175,541	119,418	113,791	
Water consumption intensity (m <sup>3</sup> per million RMB revenue)	296.5	123.7	148.4	
<b>Energy consumption</b>				
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	
<b>Greenhouse gas emission<sup>(2)</sup></b>				
Scope I emission (tCO <sub>2</sub> e)	22.0	22.0	24.3	
Scope II emission (tCO <sub>2</sub> e)	64,198.6	66,845.9	63,999.6	

*Note:*

- (1) Wastewater of Wuhan Production Plant and Qianjiang 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 I greenhouse gas emissions refer to direct emissions from equipment and operations that are owned or controlled by our Group; Scope II 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.

## **BUSINESS**

---

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.

### **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 the 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 document. 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



---

## BUSINESS

---

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 have 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.

---

## BUSINESS

---

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

---

## BUSINESS

---

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

---

## BUSINESS

---

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 those disclosed in the subsections headed "— Properties — Self-Owned Properties — Buildings", "— Environmental, Social and Governance — Occupational Health and Work Safety" and "— Non-compliance relating to advances arrangement" in this document, we have 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.

## BUSINESS

### 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
<p>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 RMB29.1 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.</p> <p>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”).</p> <p>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.</p> <p>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).</p>	<p>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.</p>	<p>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.</p> <p>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.</p>	<p>Our Group has ceased to extend any advance by endorsement of bills since December 28, 2021. To prevent recurrence of this non-compliance incident, our Group has adopted the following internal control measures to prevent recurrence of such non-compliance incident:</p> <p>(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;</p> <p>(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;</p> <p>(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 document; and</p>	<p>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.</p>



## BUSINESS

Non-compliance incident	Reasons for the non-compliance	Legal consequences and maximum penalty	Rectification actions taken	Potential operational and financial impact
<p>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.</p>		<p>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.</p>	<p>(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.</p>	
		<p>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.</p>		
		<p>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.</p>		



---

## BUSINESS

---

### 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.

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

---

## BUSINESS

---

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 document. 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 current 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,

---

## BUSINESS

---

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

---

## BUSINESS

---

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 [REDACTED], 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.