You should read the following discussion and analysis with our consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this document. Our consolidated financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties, many of which we cannot control or foresee. In evaluating our business, you should carefully consider all of the information provided in this document, including the sections headed "Risk Factors" and "Business."

For the purpose of this section, unless the context otherwise requires, references to 2021, 2022 and 2023 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a 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[1] industry and used for food preservatives, household chemicals, animal feed acidifier, and synthetic intermediates for agrochemical and pharmaceutical uses. Leveraging our PRC-based product development and manufacturing capabilities, we market and sell our products in over 70 countries and regions. Under the leadership of our experienced management team, we will continue to leverage our product development and innovation, manufacturing capabilities and global sales network to strengthen our industry leading position in the PRC and globally.

As of the Latest Practicable Date, we had a self-produced product portfolio primarily consisting of five types of toluene oxidation products, two types of toluene chlorination products, two types of benzoic acid ammonification products and more than 20 types of other fine chemical products for broad market uses. In 2021, 2022 and 2023, we recorded sales volume of approximately 362,302 tons, 375,848 tons, and 346,147 tons of products, respectively. Our 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 a competitive price while providing us with a solid customer base. Sales to our Fortune 500 customers contributed to approximately 7.6%, 8.5% and 10.5% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. While our existing products enjoy broad market appeal and use, we strive to maintain our competitive advantages by allocating additional resources to product development to ensure a growing portfolio of diversified and cost-efficient products to our customers.

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. In the global market, we ranked second among benzoic acid, sodium benzoate and benzyl alcohol

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

manufacturers in 2022. For the years ended December 31, 2021, 2022 and 2023, we generated revenue of RMB2,789.5 million, RMB3,133.8 million and RMB2,677.1 million, respectively. Our net profits for the corresponding periods were RMB309.1 million, RMB340.5 million and RMB72.9 million.

BASIS OF PREPARATION

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2021, 2022 and 2023, and the consolidated statements of financial position of the Group as at December 31, 2021, 2022 and 2023 and the summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**") have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

All HKFRSs effective for the accounting period commencing from January 1, 2023, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the Historical Financial Information throughout the Track Record Period.

The Historical Financial Information has been prepared under the historical cost convention except for bills receivable which have been measured at fair value at the end of each of the Track Record Period.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been, and are expected to continue to be, affected by a variety of factors, including those set forth below.

Demand of Toluene Derivative Products in China and Globally

We believe our financial performance and future growth depend on the overall growth of the toluene derivative products market, especially toluene oxidation products and toluene chlorination products, in China and globally. According to the Frost & Sullivan Report, the global sales volume of benzoic acid increased from approximately 234,600 tons in 2017 to 295,500 tons in 2022, representing a CAGR of 4.7%, and is expected to reach 345,200 tons in 2027. The global sales revenue of benzoic acid increased from approximately RMB1,708.0 million in 2017 to RMB2,551.5 million in 2022, representing a CAGR of 8.4%, and is estimated to reach RMB3,014.5 million in 2027. According to the Frost & Sullivan Report, the global sales volume of benzyl alcohol increased from approximately 138,600 tons in 2017 to 199,200 tons in 2022, representing a CAGR of 7.5%, and is expected to reach 224,100 tons in 2027. The global sales revenue of benzyl alcohol increased from approximately RMB1,646.1 million in 2017 to RMB3,007.3 million in 2022, representing a CAGR of 12.8%, and is estimated to reach RMB3,182.1 million in 2027.

Furthermore, toluene derivative products are widely used in food and beverage preservatives and feed additives. China is one of the largest markets for food and beverage preservatives and feed additives, and is currently showing positive development trends. According to the Frost & Sullivan Report, the PRC market size for the food and beverage preservative industry by revenue increased from RMB4.8 billion in 2018 to RMB6.0 billion in 2023, representing a CAGR of 4.9%, and is expected to reach RMB7.6 billion in 2028. The PRC market size for the feed additives industry by revenue increased from RMB94.4 billion in 2018 to RMB122.3 billion in 2023, representing a CAGR of 5.3%, and is expected to reach RMB160.4 billion in 2028 with a CAGR of 6.0% from 2024.

For the years ended December 31, 2021, 2022 and 2023, sales of toluene oxidation products and toluene chlorination products comprised 64.5%, 76.1% and 72.6% of our total revenue, respectively. We will continue to solidify our leading position and focus on the production of toluene oxidation and chlorination products to take advantage of the growing demands. We believe by leveraging our leading position in the toluene derivative products market in China and globally, we are well-positioned to capture the tremendous market opportunities to improve our results of operation and financial performance.

Expansion of Our Production Capacity

We generate our revenue from the products we produce and sell. Our sales volumes primarily depend on industry demands for our products, and more importantly, our production capacity to meet these market demands. We believe that our production capacity and the utilization rate of our production facilities have a significant impact on our business operations and financial results, and our future growths will largely rely on the continued expansion of our production capability.

During the Track Record Period, we operated two production facilities through our wholly-owned subsidiaries located in Wuhan (the "**Wuhan Production Plant**") and Qianjiang (the "**Qianjiang Xinyihong Production Plant**"), Hubei Province with a total site area of 326,618.9 sq.m. As at December 31, 2023, the designed annual production capacity for our Wuhan Production Plant and Qianjiang Xinyihong Production Plant were approximately 302,500 tons and 144,040 tons, respectively. The utilization rates were 102.4%, 122.8% and 104.0% for our Wuhan Production Plant, and 91.8%, 91.7% and 86.4% for our Qianjiang Xinyihong Production Plant for the years ended December 31, 2021, 2022 and 2023. In anticipation of the industry trends and our business growth in the larger organic synthetic chemical products industry, and to better serve our clients in the PRC and the global market, we have undertaken efforts to expand our current production capacity. We completed the expansion plan of our Wuhan Production Plant and commenced production in January 2022. This new facility is mainly designed for the production of melt-crystallized benzoic acid, which is a downstream product of benzoic acid obtained through melt-crystallization process. We commenced production at the new facility in the January 2022. We also established a new wholly-owned subsidiary, Hubei Xinxuanhong in 2021, and this manufacturing facility (the "**Hubei Xinxuanhong Production Plant**") is designed to produce toluene chlorination derivative products. We have initiated the design and regulatory application processes for Hubei Xinxuanhong Production Plant, and expect to complete the Phase I construction by the first half of 2024. In addition to expanding our domestic production facilities, we also plan to establish our global footprints with production capabilities overseas in support of our global sales to achieve greater economy of scale.

Our Ability to Manage Costs and Expenses

Our ability to manage and control our costs and expenses is one of the key factors affecting our results of operation. During the Track Record Period, we devoted efforts to control our cost of sales, which primarily includes costs of consumed raw materials, staff costs, utilities, depreciation, transportation costs, packaging expenses and others. For the years ended December 31, 2021, 2022 and 2023, our cost of sales were RMB2,150.4 million, RMB2,434.6 million and RMB2,347.3 million, respectively, representing 77.1%, 77.7% and 87.7% of our revenue for the corresponding periods.

Cost of consumed raw materials constitutes a major portion of our cost of sales. For the years ended December 31, 2021, 2022 and 2023, our cost of consumed raw materials were RMB1,175.6 million, RMB1,569.5 million and RMB1,384.2 million, which accounted for 54.7%, 64.5% and 59.0% of our total cost of sales, respectively. Fluctuations in raw material prices, especially the market prices of petroleum toluene primarily affected by the international crude oil prices, may increase our costs of sales. For more information about risks related to raw material price fluctuation, please refer to "Risk Factors — Any shortage in supply of raw materials or material fluctuation in their purchase prices may adversely affect our profit margins and results of operation" in this document.

We have adopted diversified measures to mitigate the adverse impact imposed by the price fluctuation of raw materials. For example, we maintain a steady and reliable supply of raw materials by leveraging our industry position and solid customer base. On September 10, 2020, we entered into a cooperation agreement with SINOPEC Jianghan Salt Chemical Hubei Co., Ltd. (中石化江漢鹽化工湖北有限公司), a wholly-owned subsidiary of SINOPEC, to purchase liquid caustic soda, which is one of our main raw materials, on a most favored basis. We believe that similar cooperation promotes the smooth operation of our business and maximizes our business efficiency. For details on the cooperation with our suppliers, please refer to "Business — Our Strategies — Further increase our domestic and international market shares by forming in-depth cooperation with established market participants" in this document.

In addition, we have been rated as the "AAA" customers of SINOPEC Huazhong since 2012. SINOPEC Huazhong is a branch of a wholly-owned subsidiary of SINOPEC, which is one of the largest suppliers of petroleum toluene and a major industry participant in China. On December 21, 2020, January 1, 2022 and December 31, 2022, we entered into framework sales and purchase agreements with SINOPEC Huazhong, under which we are able to purchase approximately 71,000 tons, 80,000 tons and 64,000 tons of petroleum toluene from SINOPEC Huazhong for 2021, 2022 and 2023, respectively, with the actual monthly purchase quantity to be further agreed among the parties upon submission of the purchase plan for the following month by the Group to SINOPEC Huazhong. We also entered into a strategic cooperation agreement with Distributor A, who is our largest supplier during the Track Record Period, on June 13, 2018, under which we are able to purchase approximately 15,000 tons of petroleum toluene per month (subject to adjustments of ± 5,000 tons) from June 1, 2019 to June 30, 2021. On January 6, 2022, we entered into additional framework sales and purchase agreements with Distributor A, under which we are able to purchase approximately 15,000 tons of petroleum toluene per month (subject to ±15% of quantity adjustment) from January 2022 to December 2022. We extended our agreement with Distributor A on January 6, 2023, under which we are able to purchase 9,000 tons to 15,000 tons of petroleum toluene per month (subject to ±15% of quantity adjustment) from January 2023 to December 2023. These framework agreements not only represent our long-standing relationship with the largest raw material suppliers in our industry, but also affords us the ability to make large-scale procurement. According to the Frost & Sullivan Report, large-scale procurement of petroleum toluene generally leads to significant advantage in cost saving of raw material, and further strengthen our competition in product price and steady raw material supply. Meanwhile, sufficient stock of the primary raw material in our industry, petroleum toluene, also affords us the capability and flexibility in managing our inventory and conducting petroleum toluene products trading business as well as facing market fluctuations.

Nevertheless, there are input costs and other factors affecting our operational efficiency that are beyond our control. In addition, despite our continued investments in production technology and efforts to optimize our operations, future efficiency gains cannot be assured. Our ability to manage costs and expenses will remain a key factor with direct impact on our business, financial condition, results of operations and prospects.

Our Ability to Expand Our Sales Network and Market Penetration

Our business operations rely on our multi-faceted sales network to provide our products to customers. According to the Frost & Sullivan Report, we are the largest manufacturer of benzoic acid, sodium benzoate and benzyl alcohol in China in terms of the sales revenue in 2022, accounting for 59.1%, 37.3% and 36.0% of the PRC total market revenue for these products, 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 for these products, respectively. Our leading market position is elevated by our extensive distribution network for our products. We have established a fully functional distribution network in both the PRC and the international market. As of the Latest Practicable Date, our distribution network comprises over 435 distributors across China, and we have established an overseas distribution network comprising 251 distributors. We endeavor to leverage our established network of distributors to supplement our direct sales and further penetrate the local markets and expand the breadth and depth of our market presence.

For the years ended December 31, 2021, 2022 and 2023, 43.9%, 51.8% and 45.8% of our revenue for the corresponding periods were generated from direct sales, in which our products were directly sold to end users such as chemical companies, food producing and processing companies and pharmaceutical companies; 35.5%, 35.0% and 37.2% of our revenue from the corresponding periods were generated from distribution sales, in which our products were sold to distributors that we believe will resell our products to their customers and their sub-distributors; and 20.6%, 13.2% and 17.0% of our revenue from the corresponding periods were generated though products trading in which we purchase petroleum toluene and other products from suppliers and resell them to our customers.

We believe that the performance of our sales network, and our ability to expand our product distribution and market penetration are crucial to our business and directly affect our sales volume and profitability. As we enter into new domestic and international markets, and increase our production capacity, we will broaden our sales network to further develop our market penetration.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates that we believe are most significant to the preparation of our consolidated financial statements. For details of these accounting policies and estimates, please refer to "Appendix I Accountants' Report – II Notes to the Historical Financial Information – 2.3 Summary of Material Accounting Policy Information" and "Appendix I Accountants' Report – II Notes to the Historical Financial Information – 3. Significant Accounting Judgments and Estimates" in this document.

Critical Accounting Policies

Revenue Recognition

Revenue from Contracts with Customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the us and the customer at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sales of industrial products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other Income

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognized when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Entrusted processing services income is recognized when the products entrusted for processing are delivered to the customer.

Investments and other financial assets

Initial Recognition and Measurement

Financial assets are classified, at initial recognition and subsequently measured at amortized cost, and fair value through profit or loss ("**FVTPL**").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and our business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which we have applied the practical expedient of not adjusting the effect of a significant financing component, we initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which we have applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with our policies of revenue recognition.

In order for a financial asset to be classified and measured at amortized cost, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Our business model for managing financial assets refers to how we manage our financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular purchases and sales of financial assets are recognized on the trade date, that is, the date that we commit to purchase or sell the asset. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

- Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss.

This category includes derivative instrument and equity investments which we had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognized as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to us and the amount of the dividend can be measured reliably.

Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from our consolidated statement of financial position) when:

the rights to receive cash flows from the asset have expired; or

we have transferred our rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) we have transferred substantially all the risks and rewards of the asset, or (b) we have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When we have transferred our rights to receive cash flows from an asset or have entered into a pass-through arrangement, we evaluate if, and to what extent, we have retained the risk and rewards of ownership of the asset. When we have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, we continue to recognize the transferred asset to the extent of our continuing involvement. In that case, we also recognize the associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that we have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that we could be required to repay.

Impairment of Financial Assets

We recognize an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that we expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General Approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

At each reporting date, we assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, we compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

We consider a financial asset in default when contractual payments are 30-90 days past due. However, in certain cases, we may also consider a financial asset to be in default when internal or external information indicates that we are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by us. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified Approach

For trade receivables that do not contain a significant financing component or when we apply the practical expedient of not adjusting the effect of a significant financing component, we apply the simplified approach in calculating ECLs. Under the simplified approach, we do not track changes in credit risk, but instead recognize a loss allowance based on lifetime ECLs at each reporting date. We have established a provision matrix that is based on our historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.2%–9.5%
Plant and machinery	7.9%–47.5%
Furniture and fixtures	9.5%–23.8%
Motor vehicles	19.0%–23.8%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each of the Track Record Period.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, and machinery and furniture under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of plant and equipment when completed and ready for use.

Leases

We assess at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

We apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. We recognize lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use Assets

Right-of-use assets are recognized at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Buildings and land	5 years
Storage tank	3–7 years
Motor vehicles	3–5 years

If ownership of the leased asset transfers to our Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by us and payments of penalties for termination of a lease, if the lease term reflects our exercise of the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, we use our incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Short-term leases

Our Group applies the short-term lease recognition exemption to short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as an expense on a straight-line basis over the lease term.

As lessor

When we act as a lessor, we classify at lease inception (or when there is a lease modification) each of our leases as either an operating lease or a finance lease.

Leases in which we do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, we allocate the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed. When the grant relates to expenses or losses already incurred or for the purpose of giving immediate financial support to us with no future costs and obligations, it is recognized in profit or loss in the period in which it becomes receivable.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Critical Accounting Estimates

Provision for expected credit losses on trade receivables

Our Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the Historical Financial Information.

Provision for expected credit losses on other receivables

Our Group estimates the provision for ECLs on other receivables based on the historical loss record and adjusts for forward-looking information. When assessing the loss given default, the Group also considers the financial capability of the debtors and future prospects of the industry in which the debtors operate. The assessment of the debtors' financial capability and estimates of future prospects of the industry and economic conditions involved significant management judgment and estimation.

Leases – Estimating the incremental borrowing rate

We cannot readily determine the interest rate implicit in a lease, and therefore, we use an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the interest rate that we would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what we "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). We estimate the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred Tax Assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

DESCRIPTION OF KEY STATEMENT OF PROFIT OR LOSS ITEMS

The table below sets forth our consolidated statements of profit or loss for the periods indicated derived from our consolidated statements of profit or loss and other comprehensive income set out in the Accountants' Report included in Appendix I to this document:

	Year ended December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Revenue	2,789,477	3,133,836	2,677,103
Cost of sales	(2,150,355)	(2,434,558)	(2,347,338)
Gross profit	**639,122**	**699,278**	**329,765**
Other income and gains	39,901	34,514	25,505
Selling and distribution expenses	(19,820)	(24,009)	(20,717)
Administrative expenses	(100,457)	(116,498)	(95,416)
Research and development expenses	(110,831)	(133,001)	(99,959)
Other expenses	(22,753)	(5,366)	(4,798)
Finance costs	(34,066)	(31,026)	(32,281)
Share of profits and losses of:			
Joint venture	(6,010)	(8,044)	(11,834)
Associates	8,450	11,842	4,473
Profit before tax	**393,536**	**427,690**	**94,738**
Income tax expense	(84,399)	(87,220)	(21,836)
Profit for the year	**309,137**	**340,470**	**72,902**

Revenue

The following table sets forth the breakdown of our revenue during the Track Record Period:

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of self-produced products	2,213,551	79.4	2,721,500	86.8	2,221,064	83.0
Products trading	575,926	20.6	412,336	13.2	456,039	17.0
Total	**2,789,477**	**100.0**	**3,133,836**	**100.0**	**2,677,103**	**100.0**

Sale of self-produced products. We generate our revenue primarily from sales of self-produced products, accounting for revenue from toluene oxidation product sales, toluene chlorination product sales, benzoic acid ammonification product sales and other fine chemical product sales. Revenue contribution from sales of self-produced products accounted for 79.4%, 86.8% and 83.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively.

Products trading. We engage in products trading to supplement our primary production operations to ensure the procurement of raw materials for production and as a strategy to effectively manage our inventory. We also believe this common business strategy adopted among industry manufacturers will expand our product coverage and lead to greater business advantages by providing greater product variety to our clients. We categorize our products trading by toluene product trading and other products trading. Revenue contribution from products trading accounted for 20.6%, 13.2% and 17.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. We engage in products trading despite fluctuating profits as we anticipate greater business advantage by maintaining products trading operations and stable access to raw material supply in the long run, and aim to be at the forefront of this developing trend.

Petroleum toluene is the primary raw material used for the manufacturing of our self-produced products, and we secure our supply through purchases of petroleum toluene from a selected number of major suppliers in the PRC market. According to Frost & Sullivan, these major suppliers may prioritize selling their products to purchasers with established business relationship, and these purchasers can place large purchase amount orders, which enables these purchasers to maintain a stable supply of raw materials at relatively lower costs. As a result of our long-term business relationship and framework agreement with large purchase amounts with these suppliers, we have been able to maintain a stable supply of raw materials at relatively lower costs for the manufacturing of our products. In addition, as we carry out our expansion plans to increase our production capacity, we expect our demands for raw materials to increase in the future, and persistent access to raw materials is of particular importance to us. Given the importance of these strategic relationships with our suppliers, we engage in toluene product trading to help us manage our inventory of raw materials when we have sufficient supply for our own production. For example, we increased our procurement amount of petroleum toluene when the average unit price of petroleum toluene was relatively low at the end of 2021 to benefit from the market condition and to ensure our supply of raw materials. In 2022, we resold the surplus amounts when the average unit price of petroleum toluene was favourable and after taking our internal demands into consideration. According to the Frost & Sullivan Report, large-scale procurement of petroleum toluene generally leads to significant advantage in cost of raw material, and further strengthening our competitiveness in product pricing and ensure a steady supply of raw materials.

Revenue by Product Type

The following table sets forth our revenue by product type during the Track Record Period.

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

Notes:

(1) mainly include benzyl acetate and p-methyl chlorobenzyl

(2) mainly includes p-tolualdehyde, titanium dioxide, benzyl trichloride and p-methyl benzoic acid

Sale of self-produced products

Toluene oxidation products. Our toluene oxidation products mainly include benzoic acid, sodium benzoate and other products such as benzaldehyde and benzyl benzoate. We currently generate a substantial portion of our revenue from sales of toluene oxidation products, which accounted for 47.0%, 49.6% and 50.7% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. For details of this business segment, please refer to "Business — Our Products — Toluene oxidation products and derivatives" in this document.

Toluene chlorination products. Our toluene chlorination products mainly include benzyl chloride and benzyl alcohol. Revenue from toluene chlorination products accounted for 17.5%, 26.5% and 21.9% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. For details of this business segment, please refer to "Business — Our Products — Toluene chlorination products and derivatives" in this document.

Benzoic acid ammonification products. Our benzoic acid ammonification products mainly include benzonitrile and benzoguanamine. Revenue from benzoic acid ammonification products accounted for 8.5%, 4.2% and 4.3% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. For details of this business segment, please refer to "Business — Our Products — Benzoic acid ammonification products and derivatives" in this document.

Other fine chemical products. Our other products mainly include benzyl acetate and p-methyl chlorobenzyl. Revenue from other fine chemical products accounted for 6.4%, 6.5% and 6.1% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. For details of this business segment, please refer to "Business — Our Products — Other fine chemical products" in this document.

Products trading

Toluene product trading. We purchase toluene products from our suppliers and resell them to our customers as part of our business operation. Revenue from toluene product trading accounted for 19.4%, 11.6% and 12.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively.

Other products trading. Apart from toluene products, we also engage in trading of other non-toluene based products. Revenue from other products trading accounted for 1.2%, 1.6% and 5.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively.

Cost of Sales

Our cost of sales consists primarily of costs of consumed raw materials, staff costs, depreciation, utilities, transportation costs, packaging expenses and others. The following table sets forth the major components of our cost of sales which is also the production cost adjusted by changes in work in progress and finished goods and as percentages of total cost of sales for the periods indicated.

	Year ended December 31,					
	2021		**2022**		**2023**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Consumed raw materials	1,175,641	54.7	1,569,488	64.5	1,384,237	59.0
Transportation costs	116,962	5.4	115,024	4.7	79,796	3.4
Staff costs	44,028	2.0	42,361	1.7	42,989	1.8
Utilities	172,871	8.0	195,210	8.0	192,285	8.2
Depreciation	75,974	3.5	82,252	3.4	98,645	4.2
Changes in inventories and products	(93,194)	(4.3)	(20,972)	(0.9)	9,447	0.4
Packaging expenses	61,122	2.8	58,485	2.4	50,747	2.2
Cost of toluene product trading	543,743	25.3	335,895	13.8	307,909	13.1
Cost of other products trading	28,579	1.3	38,562	1.6	132,093	5.6
Others	24,629	1.3	18,253	0.8	49,190	2.1
Total	**2,150,355**	**100.0**	**2,434,558**	**100.0**	**2,347,338**	**100.0**

For the years ended December 31, 2021, 2022 and 2023, our cost of sales were RMB2,150.4 million, RMB2,434.6 million and RMB2,347.3 million, respectively.

The following table sets forth the breakdown of our cost of sales by product type and as a percentage of total cost of sales during the Track Record Period:

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Sale of self-produced products	**1,578,033**	**73.4**	**2,060,101**	**84.6**	**1,907,336**	**81.2**
Toluene oxidation products	923,317	42.9	1,244,414	51.1	1,221,249	52.0
Toluene chlorination products	396,579	18.4	602,314	24.7	472,969	20.1
Benzoic acid ammonification products	107,513	5.0	61,948	2.5	78,793	3.4
Other fine chemical products[(1)]	150,624	7.1	151,425	6.3	134,325	5.7
Products trading	**572,322**	**26.6**	**374,457**	**15.4**	**440,002**	**18.8**
Toluene products trading	543,743	25.3	335,895	13.8	307,909	13.1
Other products trading[(2)]	28,579	1.3	38,562	1.6	132,093	5.7
Total	**2,150,355**	**100.0**	**2,434,558**	**100.0**	**2,347,338**	**100.0**

Notes:

(1) mainly include benzyl acetate and p-methyl chlorobenzyl

(2) mainly includes p-tolualdehyde, titanium dioxide, benzyl trichloride and p-methyl benzoic acid

Cost of consumed raw materials constitutes a major portion of our cost of sales. For the years ended December 31, 2021, 2022 and 2023, our cost of consumed raw materials were RMB1,175.6 million, RMB1,569.5 million and RMB1,384.2 million, respectively, which accounted for 54.7%, 64.5% and 59.0% of our total cost of sales for the corresponding periods. The following table sets forth the breakdown of our cost of consumed raw materials during the Track Record Period:

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Petroleum toluene	898,422	76.4	1,318,317	84.0	1,220,459	88.2
Chlorine gas	64,940	5.5	45,486	2.9	8,089	0.6
Dicyandiamide	44,001	3.7	22,987	1.5	19,289	1.4
Pure soda	42,989	3.7	58,039	3.7	52,412	3.8
Liquid caustic soda	37,218	3.2	53,242	3.4	38,112	2.8
Others	88,071	7.5	71,417	4.5	45,876	3.2
Total	**1,175,641**	**100.0**	**1,569,488**	**100.0**	**1,384,237**	**100.0**

Fluctuations in prices of our raw materials, especially the market prices of petroleum toluene which are primarily affected by the international crude oil prices, may increase our costs of sales. For more information about risks related to raw material price fluctuation, please refer to "Risk Factors – Any shortage in supply of raw materials or material fluctuation in their purchase prices may adversely affect our profit margins and results of operation" in this document.

The table below sets forth the sensitivity analysis on fluctuations in cost of consumed raw materials of petroleum toluene. The analysis illustrates the hypothetical impact on our net profit with 5%, and 10% increase or decrease in cost of consumed raw materials of petroleum toluene. Due to a number of assumptions applied involved in the calculation, the sensitivity and the breakeven analyzes below are for illustration purpose only, and the actual results may differ from the illustrations below:

	Change in net profit for change in cost of consumed raw materials of petroleum toluene	
	+/-5%	**+/-10%**
	RMB'000	*RMB'000*
Year ended December 31, 2021	-/+35,308	-/+70,616
Year ended December 31, 2022	-/+52,469	-/+104,938
Year ended December 31, 2023	-/+46,988	-/+93,975

Gross Profit and Gross Profit Margin

For the years ended December 31, 2021, 2022 and 2023, our gross profit were RMB639.1 million, RMB699.3 million and RMB329.8 million, respectively. For the same periods, our gross profit margin were 22.9%, 22.3% and 12.3%, respectively. The following table sets forth the breakdown of our gross profit by product and business segment, and as a percentage of total gross profit during the Track Record Period:

	Year ended December 31,					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sale of self-produced products	**635,518**	**99.4**	**661,399**	**94.5**	**313,728**	**95.1**
Toluene oxidation products	388,205	60.7	310,768	44.4	135,138	41.0
Toluene chlorination products	90,933	14.2	228,991	32.7	114,630	34.7
Benzoic acid ammonification products	129,497	20.3	68,444	9.8	37,457	11.4
Other fine chemical products	26,883	4.2	53,196	7.6	26,503	8.0
Products trading	**3,604**	**0.6**	**37,879**	**5.5**	**16,037**	**4.9**
Toluene product trading	(2,701)	(0.4)	24,920	3.6	12,176	3.7
Other products trading	6,305	1.0	12,959	1.9	3,861	1.2
Total	**639,122**	**100.0**	**699,278**	**100.0**	**329,765**	**100.0**

The following table sets forth our gross profit margin by product and business segment during the Track Record Period:

	Year ended December 31,		
	2021	**2022**	**2023**
Sale of self-produced products	**28.7%**	**24.3%**	**14.1%**
Toluene oxidation products	29.6%	20.0%	10.0%
Toluene chlorination products	18.7%	27.5%	19.5%
Benzoic acid ammonification products	54.6%	52.5%	32.2%
Other fine chemical products	15.1%	26.0%	16.5%
Products trading	**0.6%**	**9.2%**	**3.5%**
Toluene product trading	(0.5)%	6.9%	3.8%
Other products trading	18.1%	25.2%	2.8%
Gross profit margin	**22.9%**	**22.3%**	**12.3%**

Our gross profit margins fluctuated during the Track Record Period, which was mainly affected by the fluctuation in costs of our self-produced products and products trading, including the cost of petroleum toluene, our major raw material used for production, and other manufacturing costs. Generally, our Company is able to transfer the fluctuations in cost of raw materials to our downstream buyers, but occasionally this may not be fully and instantly reflected in the sales prices of our products due to the changes in the market condition and the pricing policy we adopted from time to time. Despite of market fluctuations, we maintain a relatively high gross profit margin for our self-produced products in 2021 and 2022, which was primarily due to: (i) the relative lower purchase price for the primary raw material as a result of our long-term sound relationship with our suppliers and capability to procure large quantities of raw materials; (ii) our market bargaining power benefitted from our long-standing operation history and leading market position, please refer to the "Industry Overview" in this document for our leading market position for toluene derivative products; (iii) the relatively higher production utilisation rates which enable us to maintain scale-effect advantages; (iv) our refined manufacturing technologies which significantly reduced waste of raw materials and extended the production line to produce more marketable downstream products; and (v) high-quality of our products that commands a higher selling price. Our gross profit margin decreased in 2023 primarily due to a disproportional decrease in average selling prices of our major products due to macroeconomic and industry factors. For details of the decrease of our gross profit margins in 2023, please refer to "— Discussion of Results of Operations — Year ended December 31, 2022 compared with the year ended December 31, 2023" in this section.

Petroleum toluene is the primary raw material used for the manufacturing of our self-produced products, and we secure our supply through purchases and trade of petroleum toluene which is also the main component of our products trading business. We obtain our supply of petroleum toluene from a selected number of major suppliers in the PRC market during the Track Record Period. Generally, the major suppliers of petroleum toluene may prioritize selling their products to purchasers with established business relationship, and these purchasers commonly place large purchase amount orders to ensure that they maintain a stable supply of raw materials at a relatively lower costs for the manufacturing of their products. According to Frost & Sullivan, one of the key criteria used by these major suppliers is the purchasers' consistent demand for petroleum toluene at a stable quantity from year to year. As one of the most long-standing toluene derivative products manufacturer in China, we have established long-term business relationships with a number of petroleum toluene suppliers. Since 2012, we have been rated as an "AAA" customer by SINOPEC Huazhong, a branch of a wholly-owned subsidiary of SINOPEC and one of the largest suppliers of petroleum toluene in China. Due to our top rating and established business relationship, we are afforded the right to place large-scale procurement orders of petroleum toluene as a result of this qualification.

We entered into framework procurement agreements with major petroleum toluene suppliers and are entitled to place large-scale procurement orders at a relatively low price. During the Track Record Period, the average unit cost for our petroleum toluene was approximately RMB4,973 per ton, RMB6,710 per ton and RMB6,654 per ton for the years ended December 31, 2021, 2022 and 2023, respectively, whereas the average market price (tax included) of toluene was approximately RMB5,628 per ton, RMB7,409 per ton and RMB7,249 per ton for the same periods. We use the purchased petroleum toluene as the primary raw material for the manufacturing of our self-produced products, and our large-scale procurements afford us the ability to secure petroleum toluene at a relatively low price which enabled us to record higher gross profit and gross profit margin for our self-produced products. Our industry consultant, Frost & Sullivan, is of the view that it is not uncommon for chemical manufacturers with a leading position in the market and established business relationship with major suppliers to enjoy strong pricing power and advantages in purchase cost and economic of scale, and therefore command high gross profit margin.

Moreover, we maintained a high-level production capacity utilisation rates for our production plants during the Track Record Period, which were 102.4%, 122.8% and 104.0% for our Wuhan Production Plant and 91.8%, 91.7% and 86.4% for our Qianjiang Production Plant for the year ended December 31, 2021, 2022 and 2023, respectively.

As we execute our expansion plans to increase our production capacity, we expect our demand for petroleum toluene to increase in the future. To ensure our ability to access a steady supply of petroleum toluene in the long-run, we maintained a consistent large-scale procurement from our suppliers from year to year to solidify our business relationship with our suppliers in light of our expansion plan and adopt products trading as a strategy to manage our inventory. Generally, when our raw material inventory meets and exceeds the requirements for our production, we may engage in toluene product trading business to sell our surplus inventory by obtaining information and tracking market opportunities on the Independent Commodity Intelligence Services (ICIS) to improve our cash-flow position and capitalize on the potential price appreciation opportunity for certain raw materials. According to Frost & Sullivan, products trading business is a common strategy used by the industry to ensure a steady supply of raw materials and minimize the impact of excess purchases.

We utilize this strategy and normally purchase a consistent supply of petroleum toluene from year to year based on our market projections and resell certain portion of the petroleum toluene when our raw material inventory meets our production requirement on an annual basis. Furthermore, we conduct product trading to ensure our fluent access to raw materials due to the adoption of product trading which in turn enhances our capacity to manufacture cost-efficient self-produced products and maintain our market leading position. In 2022, we were able to generate substantial gross profit for our products trading business in the amount of RMB37.9 million and a gross profit of RMB24.9 million for toluene product trading due to our efficient inventory management in taking advantage of the favourable market price trends in the first half of 2022. According to Frost & Sullivan, the average market price of toluene increased from approximately RMB5,852 per ton in January to RMB8,672 per ton in June in the first half of 2022.

Going forward, in order to control the potential risks associated with our large-scale purchase amount of petroleum toluene such as price fluctuation under the framework procurement agreements, we intend to further enhance our raw material inventory management through (i) monthly production schedule meetings to determine the raw material consumption amount for the next month; (ii) close and amicable communications with ourmajor suppliers to maintain certain flexibility in the purchase amount for each month; and (iii) enhanced coordination with third-party shipping companies and warehousing companies to improve the accuracy of the loading time and transit time of main raw materials, so that we can better manage our inventory and avoid unexpected transportation delays.

Other Income and Gains

Our other income and gains primarily consist of interest income and government grants. Government grants mainly represent subsidies we received from the local governments to compensate us for expenses spent on research, funds for retaining professional talents and subsidies received for purchase of assets, and for export development. The amount of government grants were subject to the discretion of the relevant government authority, and the government grants related to income increased significantly in 2022 because the amount of government grants for export development increased from RMB1.0 million in 2021 to RMB8.1 million in 2022. The amount of government grants for export development decreased to RMB0.2 million in 2023. Our sundry income mainly includes technology service earnings and income from sales of manufacturing residuals, which decreased from 2021 because there was technology service earnings of RMB3.0 million and sales of manufacturing residuals of RMB1.6 million in 2021. The table below sets forth a breakdown of our other income and gains and the respective percentage of total other income and gains for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Other income						
Interest income	19,295	48.4	5,632	16.3	3,310	13.0
Government grants related to income	3,882	9.7	12,447	36.1	6,425	25.2
Government grants related to assets	3,230	8.1	4,570	13.2	5,353	21.0
Sundry income	10,767	27.0	6,009	17.4	2,669	10.5
Entrusted processing service income	959	2.4	1,248	3.6	1,398	5.5
Rental income – fixed lease payments	1,562	3.9	1,774	5.1	1,774	7.0
Gain on disposal of items of property, plant and equipment	–	–	–	–	3	0.0
Gain on lease modification	–	–	–	–	81	0.3
Other gains						
Foreign exchange differences, net	–	–	2,268	6.6	3,617	14.2
Others	206	0.5	566	1.7	875	3.4
Total	**39,901**	**100.0**	**34,514**	**100.0**	**25,505**	**100.0**

Selling and Distribution Expenses

Our selling and distribution expenses consist of staff costs, depreciation and amortization, marketing expenses, business hospitality expenses, property insurance premiums, technology service charges, and others. Staff costs consist of the salaries and benefits to our in-house sales team. Marketing expenses include promotional expenses that mainly consist of expenses associated with various marketing and development activities, and business hospitality expenses that mainly consist of expense incurred by our marketing team conducting sales activities. For the years ended December 31, 2021, 2022 and 2023, we recorded selling and distribution expenses of RMB19.8 million, RMB24.0 million and RMB20.7 million, respectively.

The following table sets forth a breakdown and the respective percentage of our selling and distribution expenses for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	11,573	58.4	14,472	60.3	13,049	63.0
Business hospitality expenses	2,933	14.8	3,284	13.7	2,213	10.7
Technology service charges	1,543	7.8	1,942	8.1	611	2.9
Property insurance premiums	715	3.6	684	2.8	847	4.1
Depreciation and amortization	292	1.5	256	1.1	189	0.9
Marketing expenses	452	2.2	361	1.5	2,202	10.6
Others	2,312	11.7	3,010	12.5	1,607	7.8
Total	**19,820**	**100.0**	**24,009**	**100.0**	**20,717**	**100.0**

Administrative Expenses

Our administrative expenses consist of general management expenses, tax and surcharges and [**REDACTED**] expenses. General management expenses consist of staff costs for our administrative and management personnel, depreciation and amortization, property management fees, and other expenses including travel expenses and utilities, technology service charges and consulting fees. For the years ended December 31, 2021, 2022 and 2023, we recorded administrative expenses of RMB100.5 million, RMB116.5 million and RMB95.4 million, respectively.

The following table sets forth the breakdown and respective percentage of our administrative expenses for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	45,284	45.1	48,503	41.6	33,315	34.9
Tax and Surcharges	11,350	11.3	16,709	14.3	13,545	14.2
Depreciation and amortization	17,062	17.0	14,461	12.5	13,931	14.6
Property management fees	5,352	5.3	8,704	7.5	8,935	9.4
[**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	11,569	13.5	13,750	11.8	15,571	16.3
Total	**100,457**	**100.0**	**116,498**	**100.0**	**95,416**	**100.0**

Research and Development Expenses

Our research and development expenses consist of staff costs for our research and development personnel, article of consumption, depreciation and amortization of research and development equipment, and other expenses including technology service charges and consulting fees. For the years ended December 31, 2021, 2022 and 2023, we recorded research and development expenses of RMB110.8 million, RMB133.0 million and RMB100.0 million, respectively.

The following table sets forth a breakdown and respective percentage of our research and development expenses for the periods indicated.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Article of consumption	54,948	37.9	66,294	49.8	42,798	42.8
Staff costs	42,039	49.6	46,693	35.1	35,506	35.5
Depreciation and amortization	6,891	6.2	8,098	6.1	10,399	10.4
Others	6,953	6.3	11,916	9.0	11,256	11.3
Total	**110,831**	**100.0**	**133,001**	**100.0**	**99,959**	**100.0**

Other Expenses

Our other expenses consist primarily of impairment for long-term equity investment and other non-operating expenses. For the years ended December 31, 2021, 2022 and 2023, we recorded other expenses of RMB22.8 million, RMB5.4 million and RMB4.8 million, respectively.

Finance Costs

Our finance costs mainly consist of interest expenses on bank loans, other borrowings and lease liabilities. For the years ended December 31, 2021, 2022 and 2023, we recorded finance costs of RMB34.1 million, RMB31.0 million and RMB32.3 million, respectively.

	Year ended December 31,					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Interest on bank loans and other borrowings	30,894	90.7	27,832	89.7	30,267	93.8
Interest on discounted bills	1,485	4.4	798	2.6	89	0.2
Interest on lease liabilities	1,687	4.9	2,396	7.7	1,925	6.0
Total	**34,066**	**100.0**	**31,026**	**100.0**	**32,281**	**100.0**

Income Tax Expense

Our income tax expense primarily consists of the current income tax at the statutory rates applicable to our assessable profit before tax as determined under relevant laws and regulations in China and Hong Kong. We incurred current withholding tax of RMB117.8 million and RMB30.0 million in 2022 and 2023 respectively, as a result of dividends declared and distributed by our mainland subsidiary Wuhan Youji to its offshore shareholders in 2022 and 2023 respectively. Therefore, a 10% withholding tax was charged and paid to the China tax authorities pursuant to the relevant PRC laws and regulations. For the years ended December 31, 2021, 2022 and 2023, our effective tax rate were 21.4%, 20.4% and 23.0%, respectively.

Profit for the Year

We recorded net profit of RMB309.1 million, RMB340.5 million and RMB72.9 million for the years ended December 31, 2021, 2022 and 2023, respectively.

Taxation

Cayman Islands

We are incorporated in the Cayman Islands as a company with limited liability under the Companies Act and, accordingly, are not subject to income tax in the Cayman Islands.

British Virgin Islands

We are not subject to tax on income or capital gains under the current laws of British Virgin Islands.

Hong Kong

Our subsidiaries in Hong Kong are subject to profits tax at the rate of 16.5% for each year of period on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of our Company, Wuhan Youji (Hong Kong) Co., Limited, which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

PRC

Our subsidiaries in China are subject to Enterprise Income Tax ("**EIT**") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law ("**EIT Law**"). Our subsidiaries in China are generally subject to EIT at the statutory rate of 25% pursuant to the EIT Law. Our subsidiaries, Wuhan Youji Industries Co., Ltd. and Qianjiang Xinyihong Organic Chemical Co., Ltd. are qualified as High and New Technology Enterprise and have been subject to tax at a preferential income tax rate of 15% throughout the Track Record Period. The qualifications were extended in 2021 for three years. Since May 1, 2016, certain PRC enterprises have been required to pay a value-added tax ("**VAT**") in lieu of business tax. All our subsidiaries in China are subject to 13% VAT. For more information on PRC taxation policies, please refer to "Regulatory Overview — Laws and Regulations Relating to Tax in the PRC" in this document.

Any discontinuation of preferential tax treatment to which we are currently entitled to or any unfavorable tax policy change against us or our operating subsidiaries could have an adverse impact on the results of our operations. For more information about such risk, please refer to "Risk Factors — Uncertainties with respect to the PRC legal system could have a material and adverse effect on our business and operations" in this document.

DISCUSSION OF RESULTS OF OPERATIONS

Year ended December 31, 2022 compared with the year ended December 31, 2023

Revenue

Our total revenue decreased by 14.6% from RMB3,133.8 million in 2022 to RMB2,677.1 million in 2023.

The decrease in total revenue was mainly attributed to the general economic slowdown and extended recovery time from pandemic in 2023. In addition, there were significant economic uncertainties in the PRC and globally. Under these circumstances, the Group's downstream customers mainly in the food additives, feed additives, pesticide intermediate and pharmaceutical intermediate industries were adversely impacted. Many of these customers lowered their production and inventory levels in light of the economic uncertainty, which consequentially reduced the demand for the Group's products, and the sales volume of the Group's products decreased. In addition, the increase in market supply of toluene oxidation products further intensified the market competition. These events also levied significant pressure on the Group's pricing due to the low downstream demands while there were abundant supplies available in the market. These circumstances were a stark contrast compared to the market conditions in the first half of 2022 when the industry demand was higher than the supply and thereby placed the manufacturers in a better position in terms of pricing and bargaining power. As a result, the total sales volume of our products decreased from approximately 375,848 tons in 2022 to 346,147 tons in 2023. In addition to the decrease in sales volume, the market price of our products also decreased due to the market slowdown and uncertainties. For example, the market sales price of our toluene oxidation products decreased from RMB9,150 per ton in 2022 to RMB8,267 per ton in 2023. As a result, our revenue decreased in 2023.

Sale of self-produced products. Revenue from sales of our self-produced products decreased by 18.4% from RMB2,721.5 million in 2022 to RMB2,221.1 million in 2023, primarily due to the decrease in average sales price of our self-produced products from RMB8,536 per ton to RMB7,957 per ton for the corresponding periods. The decrease in market demands also lowered our sales volume from 318,818 tons in 2022 to 279,147 tons in 2023. To maintain our market share, we adopted a market-oriented pricing strategy to sell our products at a relatively lower price.

- *Toluene oxidation products*. Revenue from toluene oxidation product sales decreased by 12.8% from RMB1,555.2 million in 2022 to RMB1,356.4 million in 2023, primarily due to the decrease in downstream market demand and the increase in market supply. Therefore, we adopted a market-oriented pricing strategy to sell our products at a relatively lower price to maintain our market share. The sales volume for toluene oxidation products decreased from approximately 169,962 tons in 2022 to 164,071 tons in 2023. The average unit price for toluene oxidation products decreased from approximately RMB9,150 per ton to RMB8,267 per ton for the corresponding periods.

- *Toluene chlorination products*. Revenue from toluene chlorination product sales decreased by 29.3% from RMB831.3 million in 2022 to RMB587.6 million in 2023, as a result of the decreases in sales volume from 61,988 tons to 52,299 tons as well as the decrease in average sales price from RMB13,411 per ton to RMB11,235 per ton for the corresponding periods. There was a downward trend in the downstream market demand in 2023, and we sold our products at a relatively lower price in light of the challenging economic environment. The drop in price of chlorine gas as our raw material also has an impact on our pricing.

- *Benzoic acid ammonification products*. Our revenue from benzoic acid ammonification product sales decreased by 10.8% from RMB130.4 million in 2022 to RMB116.3 million in 2023, as a result of the decrease in average sales price from approximately RMB28,232 per ton to RMB17,415 per ton for the corresponding periods. This decrease was partially offset by the increase in sales volume from approximately 4,619 tons to 6,675 tons for the corresponding periods.

- *Other fine chemical products*. Our revenue from other product sales decreased by 21.4% from RMB204.6 million in 2022 to RMB160.8 million in 2023, primarily due to the decrease in sales volume from approximately 82,249 tons to 56,102 tons for the corresponding periods.

Products trading. Our revenue from products trading increased by 10.6% from RMB412.3 million in 2022 to RMB456.0 million in 2023. This increase was primarily due to the increase in sales volume from approximately 57,030 tons to 67,000 tons for the corresponding periods.

- *Toluene product trading*. Our revenue from toluene product trading decreased by 11.3% from RMB360.8 million in 2022 to RMB320.1 million in 2023. This decrease was primarily the result of the decrease in trading volume from approximately 54,823 tons to 49,295 tons for the corresponding periods.

- *Other products trading*. Our revenue from other products trading increased significantly by 163.9% from RMB51.5 million in 2022 to RMB136.0 million in 2023, primarily due to the significant increase in sales volume from approximately 2,207 tons to 17,705 tons for the corresponding periods mainly attributable to the purchase of finished products from Hebei Kangshi for products trading as it ramp up its production in 2023.

Cost of Sales

Our cost of sales decreased by 3.6% from RMB2,434.6 million in 2022 to RMB2,347.3 million in 2023, as the result of the decrease in total sales volume of our self-produced products from approximately 318,818 tons to 279,147 tons and toluene product trading from approximately 54,823 tons to 49,295 tons for the corresponding periods.

Sale of self-produced products. Cost of sales for our self-produced products decreased by 7.4% from RMB2,060.1 million in 2022 to RMB1,907.3 million in 2023, which was primarily due to the decrease in sales volume from approximately 318,818 tons to 279,147 tons and the decrease in raw material, in particular, chlorine gas prices for the corresponding periods.

- *Toluene oxidation products*. Cost of sales of our toluene oxidation products decreased by 1.9% from RMB1,244.4 million in 2022 to RMB1,221.2 million in 2023, primarily due to the decrease of sales volume from approximately 169,962 tons to 164,071 tons for the corresponding periods.

- *Toluene chlorination products*. Cost of sales of our toluene chlorination products decreased by 21.5% from RMB602.3 million in 2022 to RMB473.0 million in 2023, primarily due to the decrease in sales volume from approximately 61,988 tons to 52,299 tons and the decrease in chlorine gas prices from RMB967 per ton to RMB186 per ton in the corresponding periods.

- *Benzoic acid ammonification products*. Cost of sales of our benzoic acid ammonification products increased by 27.2% from RMB61.9 million in 2022 to RMB78.8 million in 2023, primarily due to the increase in sales volume from approximately 4,619 tons to 6,675 tons for the corresponding periods. This increase was partially offset by the decrease in raw material costs of dicyandiamide from approximately RMB21,466 per ton to RMB12,560 per ton for the corresponding periods.

- *Other fine chemical products*. Cost of sales of our other fine chemical products decreased by 11.3% from RMB151.4 million in 2022 to RMB134.3 million in 2023, which was primarily attributed to the decrease in the sales volume of certain other fine chemical products, such as p-methyl benzyl chloride.

Products trading. Cost of products trading increased by 17.5% from RMB374.5 million in 2022 to RMB440.0 million in 2023. This increase was primarily due to the increase in sales volume of trading products from approximately 57,030 tons to 67,000 tons.

- *Toluene product trading*. Cost of sales for toluene product trading decreased by 8.3% from RMB335.9 million in 2022 to RMB307.9 million in 2023. The decrease in cost of sales for toluene product trading primarily resulted from the decrease in sales volume from approximately 54,823 tons in 2022 to 49,295 tons in 2023 and partially offset by the increase in average unit cost of toluene from approximately RMB6,127 per ton to RMB6,246 per ton.

- *Other products trading*. Cost of sales for other products trading increased significantly by 242.5% from RMB38.6 million in 2022 to RMB132.1 million in 2023, due to the increase in sales volume from approximately 2,207 tons to 17,705 tons for the corresponding periods.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 52.8% from RMB699.3 million in 2022 to RMB329.8 million in 2023. The significant decrease is mainly attributable to the combined effects of the following:

(1) The decrease in our products' sales volume and price due to macroeconomic and industry factors adversely impacted our gross profits and gross profit margins. The slower-than-expected recovery of economy from the pandemic caused significant reduction in downstream demand amid the significant economic uncertainties in the

PRC and globally. In addition, the increase in market supply of toluene oxidation products further intensified the market competition. For details, please refer to "– Discussion of Results of Operations – Year ended December 31, 2022 compared with the year ended December 31, 2023 – Revenue" in this section. This levied significant pressure on the Group's pricing as the downstream demand was lower than the available supply in the market. Therefore, the Group needed to lower the selling prices of its products in order to effectively compete with its competitors to maintain the utilization rate of its production facilities at an optimal level and to keep our market share, which adversely impacted the gross profit margin; and

(2) A relatively lower production plant utilization rate compared to our past performance and the maintenance of our production plant in February 2023, also impacted our gross profit margin. Generally, we conduct annual maintenance for our production plants each year. However, the length and timing of annual maintenance may vary based on our manufacturing arrangement. We scheduled an annual maintenance from late January to late February 2023 when most of the manufacturing and trading activities had been temporarily suspended. In the past, we conducted maintenance from late December 2021 to early January 2022. As a result of the challenging market environment and our annual maintenance, the utilization rate of our Wuhan Production Plant decreased from 122.8% in 2022 to 104.0% in 2023, and the utilization rate of our Qianjiang Xinyihong Production Plant decreased from 91.7% in 2022 to 86.4% in 2023. This lower utilization rate in turn increased the per unit costs of our products and thus adversely affecting our gross profit and gross profit margin.

As a result of the foregoing, our gross profit margin decreased from 22.3% to 12.3% for the corresponding periods.

Sale of self-produced products. Our gross profit of self-produced product sales decreased by 52.6% from RMB661.4 million in 2022 to RMB313.7 million in 2023, which was consistent with the decrease of revenue generated from sales of self-produced products from RMB2,721.5 million to RMB2,221.1 million for the corresponding periods. The gross profit margin of our self-produced products decreased from 24.3% in 2022 to 14.1% in 2023.

- *Toluene oxidation products*. Our gross profit of toluene oxidation product sales decreased by 56.5% from RMB310.8 million in 2022 to RMB135.1 million in 2023, which was the combined effect of the decrease in average unit price from approximately RMB9,150 per ton to RMB8,267 per ton and the decrease in sales volume from approximately 169,962 tons to 164,071 tons for the corresponding periods. The gross profit margin of our toluene oxidation products decreased from 20.0% to 10.0% due to the decrease in downstream market demands and our decision to reduce our sales prices in order to compete with our competitors to maintain our sales volume and market share. Our one-month maintenance shutdown in our Wuhan Production Plant from January to February in 2023 and lower utilization rate, which led to the lower production volume of our products and higher average unit cost, also contributed to this decrease.

- *Toluene chlorination products*. Our gross profit of toluene chlorination product sales decreased by 49.9% from RMB229.0 million in 2022 to RMB114.6 million in 2023, which was due to the decrease in sales volume from 61,988 tons to 52,299 tons and the decrease in gross profit margin of our toluene chlorination products from 27.5% to 19.5% for the corresponding periods. This decrease was primarily due to the decrease in average sales price from approximately RMB13,411 per ton to RMB11,235 per ton for the corresponding periods.

- *Benzoic acid ammonification products*. Our gross profit of benzoic acid ammonification product sales decreased by 45.3% from RMB68.4 million in 2022 to RMB37.5 million in 2023, which was in line with the decrease in average unit price in 2023 from approximately RMB28,232 per ton to RMB17,415 per ton for the corresponding periods and partially offset by the increase in sales volume from 4,619 tons to 6,675 tons. The gross profit margin of our benzoic acid ammonification products decreased from 52.5% to 32.2%, as as we adopted a market-oriented pricing strategy to sell our products at a relatively lower price to gain market share.

- *Other fine chemical product sales*. Our gross profit of other fine chemical product sales decreased by 50.2% from RMB53.2 million in 2022 to RMB26.5 million in 2023, primarily due to the decrease in sales volume from 82,249 tons to 56,102 for the corresponding periods. The gross profit margin of our other fine chemical product sales decreased from 26.0% to 16.5% for the corresponding periods.

Products trading. Our gross profit of products trading decreased by 57.7% from RMB37.9 million to RMB16.0 million for the year ended December 31, 2022 and 2023, respectively, as a result of the decrease in the gross profit margin from 9.2% to 3.5%.

- *Toluene product trading*. Our gross profit of toluene product trading decreased by 51.1% from RMB24.9 million in 2022 to RMB12.2 million in 2023, mainly due to the decreases in the gross profit margin from 6.9% to 3.8% and the decrease in trading volume from approximately 54,823 tons to 49,295 tons for the corresponding periods.

- *Other products trading*. Gross profit of other products trading decreased by 70.2% from RMB13.0 million in 2022 to RMB3.9 million in 2023, and the gross profit margin decreased from 25.2% to 2.8% for the corresponding periods. These decreases were primarily due to the increase of trading volume of certain products purchased from Hebei Kangshi during its ramp up period which had relatively lower gross profit margin as well as the decrease in trading of benzaldehyde, which is a product of higher gross profit margin, due to weak market demand.

Other Income and Gains

Our other income and gains decreased by 26.1% from RMB34.5 million in 2022 to RMB25.5 million in 2023 due to (i) the settlement of loans to Linuo Group, which led to the decrease in interest income, and (ii) the decrease in government grants related to income received during the period.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 13.7% from RMB24.0 million in 2022 to RMB20.7 million in 2023, primarily due to the decrease in performance bonus to our employees.

Research and Development Expenses

Our research and development expenses decreased by 24.8% from RMB133.0 million in 2022 to RMB100.0 million in 2023, primarily due to the decrease in staff costs for our research and development employees resulting from the decrease in performance bonus to our employees and the decrease in articles of consumption.

Administrative Expenses

Our administrative expenses decreased by 18.1% from RMB116.5 million in 2022 to RMB95.4 million in 2023, primarily due to the decrease in staff costs resulting from the decrease in performance bonus to our employees and the decrease in [**REDACTED**] expenses and tax and surcharges.

Other Expenses

Our other expenses decreased by 11.1% from RMB5.4 million in 2022 to RMB4.8 million in 2023, primarily due to the decrease in handling charges.

Finance Costs

Our finance costs increased by 4.2% from RMB31.0 million in 2022 to RMB32.3 million in 2023 due to the increased bank loans. For details, please refer to "– Indebtedness – Interest-Bearing Bank and Other Borrowings" in this section.

Income Tax Expense

Our income tax expenses decreased by 75.0% from RMB87.2 million in 2022 to RMB21.8 million in 2023 due to the significant decrease in profit before tax. Our effective tax rate slightly increased from 20.4% to 23.0% for the same corresponding period.

Profit for the Period

As the result of the foregoing reasons, our profit for the year decreased by 78.6% from RMB340.5 million in 2022 to RMB72.9 million in 2023.

Year ended December 31, 2021 compared with the year ended December 31, 2022

Revenue

Our total revenue increased by 12.3% from RMB2,789.5 million in 2021 to RMB3,133.8 million in 2022, primarily due to the increase in average unit price and sales volume of our toluene oxidation and chlorination products, and partially offset by the decrease in average unit price and sales volume of our benzoic acid ammonification products and the decrease in sales volume of toluene trading products. The total sales volume of our products increased from approximately 362,302 tons in 2021 to 375,848 tons in 2022.

Sale of self-produced products. Revenue from sales of our self-produced products increased by 22.9% from RMB2,213.6 million in 2021 to RMB2,721.5 million in 2022, primarily due to the increase in average unit price and sales volume of our toluene oxidation and chlorination products, and partially offset by the decrease in average unit price and sales volume of our benzoic acid ammonification products. The average unit price of our toluene chlorination products increased significantly in 2022 due to (i) the market supply shortage and our market bargaining power established through our ability to supply these products; and (ii) the significant increase in the average purchase price of petroleum toluene, the major raw materials used in the production, as a result of changes in the macro-environment of global politics and economy.

- *Toluene oxidation products*. Revenue from toluene oxidation product sales increased by 18.6% from RMB1,311.5 million in 2021 to RMB1,555.2 million in 2022, primarily due to the increases in sales volume and average unit price of toluene oxidation products. The sales volume for toluene oxidation products increased from approximately 161,028 tons in 2021 to 169,962 tons in 2022. The average unit price for toluene oxidation products increased from approximately RMB8,145 per ton in 2021 to RMB9,150 per ton in 2022.

- *Toluene chlorination products*. Revenue from toluene chlorination product sales increased significantly by 70.5% from RMB487.5 million in 2021 to RMB831.3 million in 2022, primarily as a result of the significant increase in average unit price from approximately RMB9,519 per ton in 2021 to RMB13,411 per ton in 2022. The significant increase in average unit price was due to market supply shortages, and our ability to supply these products increased our market bargaining power. In addition, the sales volume of our toluene chlorination products also increased from approximately 51,217 tons in 2021 to 61,988 tons in 2022, primarily due to the increase sales of benzyl alcohol.

- *Benzoic acid ammonification products*. Our revenue from benzoic acid ammonification product sales decreased by 45.0% from RMB237.0 million in 2021 to RMB130.4 million in 2022, as a result of the decrease in sales volume from approximately 7,921 tons in 2021 to 4,619 tons in 2022, and the decrease in average unit price from approximately RMB29,920 per ton to RMB28,232 per ton in the corresponding years. The decreases in sales volume and average unit price of our benzoic acid ammonification products were primarily due to the general increase in market supply.

- *Other fine chemical products*. Our revenue from other product sales increased by 15.3% from RMB177.5 million in 2021 to RMB204.6 million in 2022, primarily due to the increase in sales volume of other fine chemical products with high-quality in 2022.

Products trading. Our revenue from products trading decreased by 28.4% from RMB575.9 million in 2021 to RMB412.3 million in 2022. This decrease was the result of the decrease in sales volume from 113,840 tons in 2021 to 57,030 tons in 2022, and partially offset by the increase in average unit price of our traded products from approximately RMB5,059 per ton to RMB7,230 per ton in the corresponding years.

- *Toluene product trading*. Our revenue from toluene product trading decreased by 33.3% from RMB541.0 million in 2021 to RMB360.8 million in 2022. This decrease was the result of the decrease in sales volume from approximately 112,272 tons in 2021 to 54,823 tons in 2022, which was in turn due to our increased internal demand for petroleum toluene for the manufacturing of our self-produced products in 2022 as well as market fluctuations in 2022. This decrease was partially offset by the increase in average unit price from approximately RMB4,819 per ton to RMB6,581 per ton in the corresponding years.

- *Other products trading*. Our revenue from other products trading increased by 47.7% from RMB34.9 million in 2021 to RMB51.5 million in 2022, primarily due to the increase in sales volume from approximately 1,568 tons in 2021 to 2,207 tons in 2022.

Cost of Sales

Our cost of sales increased by 13.2% from RMB2,150.4 million in 2021 to RMB2,434.6 million in 2022, as the result of the increase in total sales volume from approximately 362,302 tons in 2021 to 375,848 tons in 2022. Similarly, the average unit price of petroleum toluene, the primary raw material used for our production, increased from approximately RMB4,973 per ton to RMB6,710 per ton in the corresponding years.

Sale of self-produced products. Cost of sales for our self-produced products increased by 30.5% from RMB1,578.0 million in 2021 to RMB2,060.1 million in 2022, which was primarily due to the increase in sales volume of our toluene oxidation and chlorination products as well as the increase in price of raw materials.

- *Toluene oxidation products*. Cost of sales of our toluene oxidation products increased by 34.8% from RMB923.3 million in 2021 to RMB1,244.4 million in 2022, primarily due to the increase of sales volume from approximately 161,028 tons to 169,962 tons and the increase in raw material costs of petroleum toluene from approximately RMB4,973 per ton to RMB6,710 per ton in the corresponding years. In the first half of year 2022, we commenced expansion of our production of melt-crystallized benzoic acid with an increased annual designed production capacity of approximately 60,000 tons under our toluene oxidation products, which also contributed to the increase in cost of sales.

- *Toluene chlorination products*. Cost of sales of our toluene chlorination products increased by 51.9% from RMB396.6 million in 2021 to RMB602.3 million in 2022, due to the combined effects of the increase in sales volume from approximately 51,217 tons to 61,988 tons and the increase in raw material costs of petroleum toluene from approximately RMB4,973 per ton to RMB6,710 per ton in the corresponding years.

- *Benzoic acid ammonification products*. Cost of sales of our benzoic acid ammonification products decreased by 42.4% from RMB107.5 million in 2021 to RMB61.9 million in 2022, primarily due to the decrease in sales volume from approximately 7,921 tons to 4,619 tons in the corresponding years resulted from the increased supply of benzoic acid ammonification products from our domestic competitors.

- *Other fine chemical products*. Cost of sales of our other fine chemical products remained stable at RMB150.6 million in 2021 and RMB151.4 million in 2022.

Products trading. Cost of products trading decreased by 34.6% from RMB572.3 million in 2021 to RMB374.5 million in 2022. This decrease was primarily due to the decrease in sales volume from approximately 113,840 tons in 2021 to 57,030 tons in 2022, and partially offset by the increase in average unit cost from approximately RMB5,027 per ton to RMB6,566 per ton in the corresponding years mainly due to the increased average unit price of petroleum toluene in 2022.

- *Toluene product trading*. Cost of sales for toluene product trading decreased by 38.2% from RMB543.7 million in 2021 to RMB335.9 million in 2022, as the sales volume decreased from approximately 112,272 tons to 54,823 tons in the corresponding years. The decrease in cost of sales for toluene product trading was partially offset by the increase in average unit cost from approximately RMB4,843 per ton in 2021 to RMB6,127 per ton in 2022, due to the increased average unit price of petroleum toluene in 2022.

- *Other products trading*. Cost of sales for other products trading increased by 34.9% from RMB28.6 million in 2021 to RMB38.6 million in 2022, primarily attributed to the increase in sales volume from approximately 1,568 tons to 2,207 tons in the corresponding years.

Gross Profit and Gross Profit Margin

Our gross profit increased by 9.4% from RMB639.1 million in 2021 to RMB699.3 million in 2022, which was in line with our revenue growth. Our gross profit margin decreased slightly from 22.9% to 22.3% in the corresponding years, primarily due to the decreased gross profit margin of our self-produced products.

Sale of self-produced products. Our gross profit of self-produced product sales increased by 4.1% from RMB635.5 million in 2021 to RMB661.4 million in 2022, which was consistent with the increase in revenue generated from sales of self-produced products from RMB2,213.6 million to RMB2,721.5 million in the corresponding years, representing a growth rate of 22.9%. The gross profit margin of our self-produced products decreased from 28.7% in 2021 to 24.3% in 2022 mainly due to the increase in average unit cost of petroleum toluene purchased by our Group, the primary raw material used for our production, which increased from approximately RMB4,973 per ton to RMB6,710 per ton in the corresponding years, and the increased cost was not fully transferred to the customers in light of the keen market competition and the volatile downstream market demand as well as our adoption of a market-oriented pricing strategy for some of our products in 2022.

- *Toluene oxidation products*. Our gross profit of toluene oxidation product sales decreased by 19.9% from RMB388.2 million in 2021 to RMB310.8 million in 2022, primarily due to the increase in average unit cost of our toluene oxidation products, which outpaced the increase in average unit price and partially offset by the increase in revenue and sales volume of these products. The gross profit margin of our toluene oxidation products decreased from 29.6% in 2021 to 20.0% in 2022, in light of the keen market competition and the volatile downstream market demand and we employed a market-oriented pricing strategy to sell our products at a relatively lower price to gain market share. According to Frost & Sullivan, with a steady growth in downstream market demand, the sales volume of specialty chemicals (including toluene derivative products) we provided is sensitive to the fluctuation of its selling price. We adjust our pricing strategy to reflect market competition in order to maintain and enhance our market leading position.

- *Toluene chlorination products*. Our gross profit of toluene chlorination product sales increased significantly by 151.8% from RMB90.9 million in 2021 to RMB229.0 million in 2022 due to the significant increase in average unit price of toluene chlorination products, and in particular at a higher rate of increase relative to the increase in cost of sales for these products. As a result, the gross profit margin of our toluene chlorination products increased significantly from 18.7% to 27.5% in the corresponding years. This increase was primarily due to market supply shortages, and our ability to supply these products at the time increased our market bargaining power and could sell our products at a higher prices.

- *Benzoic acid ammonification products*. Our gross profit of benzoic acid ammonification product sales decreased by 47.1% from RMB129.5 million in 2021 to RMB68.4 million in 2022, which was in line with the decrease in sales volume by 41.7% from approximately 7,921 tons to 4,619 tons and the decrease in average unit price by 5.6% from approximately RMB29,920 per ton to RMB28,232 per ton in the corresponding years. The gross profit margin of our benzoic acid ammonification products decreased slightly from 54.6% in 2021 to 52.5% in 2022, as we employed a market-oriented pricing strategy to sell our products at a relatively lower price to gain market share.

- *Other fine chemical product sales*. Our gross profit of other fine chemical product sales increased significantly by 97.9% from RMB26.9 million in 2021 to RMB53.2 million in 2022, primarily because we refined our manufacturing technologies, which resulted in the advanced quality and pureness of our other fine chemical products. As we gradually gained increased market shares, we adopted a market-oriented pricing strategy to sell our products with a relatively higher gross profit margin to enhance our profitability.

Products trading. Our gross profit for products trading increased significantly from RMB3.6 million in 2021 to RMB37.9 million in 2022, and the gross profit margin increased significantly from 0.6% to 9.2% in the corresponding years, primarily due to the increase in average unit price of our traded products. Petroleum toluene is our major trading products, and according to Frost & Sullivan Report, the market price of toluene increased significantly from approximately RMB5,628 per ton in 2021 to RMB7,410 per ton in 2022. Benefited from our long-standing relationship with the suppliers, large-scale purchase amount and in-depth market understanding, we profited from toluene product trading by selling the surplus toluene that we purchased at a relatively lower price compared to the prevailing market price at which we sold them. As a result, our gross profit margin increased in 2022.

- *Toluene product trading*. We recorded gross profit of RMB24.9 million for our toluene product trading in 2022 as compared to a gross loss of RMB2.7 million in 2021 and the gross profit margin also increased to 6.9%, primarily because the market price of toluene increased in the first half of year 2022 from approximately RMB5,852 per ton to RMB8,672 per ton as toluene is a chemical raw material that primarily derived from petroleum, the increasing market price of brent crude oil in first half of 2022, caused by macro-environment of global policies and economy, has led to the upward trend of the price of toluene, and we capture this market trend and resold our in-stock petroleum toluene at a relatively higher price compared to our purchase price.

- *Other products trading*. Gross profit of other products trading increased by 105.5% from RMB6.3 million in 2021 to RMB13.0 million in 2022, and the gross profit margin increased from 18.1% to 25.2% in the corresponding years, primarily due to the increase in average unit price of certain other trading products in the first half of 2022, such as p-tolualdehyde, and new trade products, such as benzoyl chloride and potassium diformate, with relatively higher gross profit.

Other Income and Gains

Our other income and gains decreased by 13.5% from RMB39.9 million in 2021 to RMB34.5 million in 2022 as a result of the decrease in interest income from RMB19.3 million in 2021 to RMB5.6 million in 2022 due to the settlement of loans to related party, and partially offset by the increase in government grants from RMB7.1 million to RMB17.0 million in the corresponding years.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 21.1% from RMB19.8 million in 2021 to RMB24.0 million in 2022, primarily due to the increase in staff salaries as well as the engagement and use of third-party information platforms to enhance our knowledge of the export market to support our overseas business expansions.

Research and Development Expenses

Our research and development expenses increased by 20.0% from RMB110.8 million in 2021 to RMB133.0 million in 2022, primarily due to the increase in staff costs for our research and development employees and articles of consumption.

Administrative Expenses

Our administrative expenses increased by 16.0% from RMB100.5 million in 2021 to RMB116.5 million in 2022, primarily due to the increase in (i) tax and surcharges as a result of our increased revenue; and (ii) general management expenses resulted from our increased property management fees in 2022. The incurrence of more [**REDACTED**] expenses also contributed to the increase in administrative expenses.

Other Expenses

Our other expenses decreased by 76.3% from RMB22.8 million in 2021 to RMB5.4 million in 2022, primarily due to the decrease in loss from disposal of fixed asset and equipment, and the absence of foreign exchange losses in 2022.

Finance Costs

Our finance costs decreased by 9.1% from RMB34.1 million in 2021 to RMB31.0 million in 2022 due to the decrease in interest on bank and other borrowings because we utilized bank loans with relatively lower interest rate, and partially offset by the increase in interest on lease liabilities due to the increase in leased properties for our office and research and development purposes. For details, please refer to "– Indebtedness – Interest-Bearing Bank and Other Borrowings" in this section.

Income Tax Expense

Our income tax expenses increased by 13.3% from RMB84.4 million in 2021 to RMB87.2 million in 2022, and our effective tax rate decreased from 21.4% in 2021 to 20.4% in 2022. The increase in income tax expense was primarily the result of the increased revenue and taxable profit.

Profit for the Year

As the result of the foregoing reasons, our profit for the year increased by 10.2% from RMB309.1 million in 2021 to RMB340.5 million in 2022.

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as at the dates indicated, which have been extracted from the Accountants' Report included in Appendix I to this Document:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Total non-current assets	1,182,574	1,292,451	1,283,308
Total current assets	1,753,796	864,887	832,574
Total assets	**2,936,370**	**2,157,338**	**2,115,882**
Total current liabilities	1,228,303	1,218,688	1,422,654
Net current assets/(liabilities)	525,493	(353,801)	(590,080)
Total assets less current liabilities	1,708,067	938,650	693,228
Total non-current liabilities	187,749	212,543	163,611
Total liabilities	1,416,052	1,431,231	1,586,265
Net assets	**1,520,318**	**726,107**	**529,617**
Share capital	339	48	48
Other reserves	1,519,979	726,059	529,569
Total equity	**1,520,318**	**726,107**	**529,617**

NET CURRENT ASSETS/LIABILITIES

The following table sets forth our current assets and current liabilities as at the dates indicated:

	As at December 31,			As at January 31,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Inventories	305,621	320,481	285,333	230,867
Trade and bills receivables	234,358	326,979	296,314	388,277
Prepayments, deposits and other receivables	1,094,852	69,301	145,367	165,084
Pledged deposits	49,504	64,675	40,127	40,127
Cash and cash equivalents	69,461	83,451	65,433	121,308
Total current assets	**1,753,796**	**864,887**	**832,574**	**945,663**
Current liabilities				
Trade and bills payables	196,250	171,228	149,705	191,480
Other payables and accruals	263,173	362,086	372,971	422,585
Interest-bearing bank and other borrowings	716,107	662,300	852,020	904,020
Lease liabilities	7,262	16,308	15,850	12,587
Income tax payable	45,511	6,766	32,108	1,203
Total current liabilities	**1,228,303**	**1,218,688**	**1,422,654**	**1,531,875**
Net current assets/(liabilities)	**525,493**	**(353,801)**	**(590,080)**	**(586,212)**

We recorded net current assets of RMB525.5 million as at December 31, 2021. Our net current assets in 2021 was primarily in line with our business expansion, which led to the continued increase in revenue and profitable operations. Our net current assets in 2021 were partially offset by increase in interest-bearing bank loans and other borrowings as a result of borrowings incurred in the ordinary course of our business operations and the expansion of our production plants.

We recorded net current liabilities of RMB353.8 million and RMB590.1 million as at December 31, 2022 and 2023, respectively. Our net current liabilities as at December 31, 2022 and 2023 was primarily due to the dividend of RMB1,102.8 million and RMB270.0 million declared in 2022 and 2023, respectively, to our shareholders, and was partially offset by the profit recognised during the corresponding periods.

Our Board of Directors has the absolute discretion to decide whether to declare or distribute dividends at a particular point in time. Any payment proposal and dividend distribution in the future will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant.

We incurred net current liabilities as at December 31, 2022 due to the distribution of the February 2022 Dividend and the December 2022 Dividend (together, the "**2022 Dividend**"). The 2022 Dividend was a one-time event to settle our Group's historical receivables due from our related parties, Linuo Group and Linuo Investment, which constituted a significant portion of our receivables due from third parties. As a result of the 2022 Dividend distribution, the amounts due from Linuo Investment and the Linuo Group decreased substantially and we recorded net current liability of RMB353.8 million as at December 31, 2022. Our net current liabilities further increased to RMB590.1 million as at December 31, 2023 due to the distribution of dividend of RMB270 million. During the Track Record Period, we recorded net profit of RMB309.1 million, RMB340.5 million, and RMB72.9 million for the year ended December 31, 2021, 2022 and 2023, respectively. Overall, our continuous profitable operations provide the foundation to our Group's financial soundness and liquidity. In addition, we closely monitor our cash flow and plan to make continuous efforts to improve our financial positions, including (i) adopt various strategies and measures including enhance our production capacity and market share to continuously maintain and improve our revenue growth and profitability; (ii) maintain our sound relationships with banks and other financial institutions to obtain financial facilities to support our business operations as required. As of the Latest Practicable Date, we had unutilized banking facilities of RMB601.0 million; (iii) strictly follow our receivable collection rules and standards to ensure our cash flow and liquidity; and (iv) adjust our financing structure to replace short-term bank loans with long-term bank loans. As of December 31, 2023, we had bank loans repayable over one year of RMB65.5 million.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. The table below sets forth our inventory balances as at the dates indicated:

	As at December 31,					
	2021		**2022**		**2023**	
	RMB'000		*RMB'000*		*RMB'000*	
Raw materials (measured in tons)	135,671	23,640	129,633	20,374	104,487	16,737
Raw materials (measured in units)	5,690	1,038,149	5,617	825,848	5,333	777,224
Work in progress (measured in tons)	11,148	2,413	13,827	2,703	13,269	2,391
Finished goods (measured in tons)	153,112	17,133	171,404	18,513	164,008	17,945
Impairment	–	–	–	–	(1,764)	–
Total	**305,621**		**320,481**		**285,333**	

Our inventory balance increased from RMB305.6 million as at December 31, 2021 to RMB320.5 million as at December 31, 2022, primarily due to the increase in finished goods resulted from our expanded production of benzoic acid and sodium benzoate, and our increased inventory of benzonitrile and benzaldehyde for our hydrogenation production. Our inventory balance decreased to RMB285.3 million as at December 31, 2023, primarily due to our production and sales strategy in an effort to lower inventory amid a slow market. On the sales side, we lowered our sales price in order to increase inventory turnover. On the production side, we planned our production with greater synchronization with incoming orders and current inventory level. These strategies effectively reduced our inventory balance.

	Year ended December 31,		
	2021	**2022**	**2023**
Inventory turnover days*(note)*	36	47	47

Note: Inventory turnover days for a year is the arithmetic mean of the beginning and ending balances of inventory for the relevant year divided by cost of inventory sold for the relevant year and multiplied by 365 days.

For the years ended December 31, 2021, 2022 and 2023, our inventory turnover days were 36 days, 47 days and 47 days, respectively. Our inventory turnover days remained fairly stable during the Track Record Period as we actively manage our inventory balance.

As of the Latest Practicable Date, RMB197.0 million or 69.0% of the RMB285.3 million inventories as of December 31, 2023 were subsequently utilized or sold.

Trade and Bills Receivables

Our trade and bills receivables consist of trade receivables and bills receivable balances due from our customers. Our trading terms with our existing customers are mainly on credit while we normally require new customers to make payments in advance. The credit period we grant to our established customers generally ranges from one to four months. Each customer has a particular and maximum credit limit based on our business history with this customer. We seek to maintain strict control over our outstanding receivables and has a credit control pre-alert working mechanism to minimize credit risk. Under our credit control mechanism, our accounting and finance team conduct monthly reviews and sort out the outstanding receivables with relatively short credit period, and then our accounting and finance team informs the respective sales team member and the sales managers of the billing status in writing. Overdue balances are reviewed regularly by senior management. In view of the measures we have implemented and that our trade receivables are associated with a large number of diversified customers, the expected credit loss is minimal. Our trade receivables are non-interest-bearing.

The table below sets forth our trade and bills receivables as at the dates indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	99,655	143,218	97,211
Bills receivables	135,201	184,573	199,727
	234,856	327,791	296,938
Impairment	(498)	(812)	(624)
Total	**234,358**	**326,979**	**296,314**

Our trade and bills receivables (net of impairment) increased from RMB234.4 million as at December 31, 2021 to RMB327.0 million as at December 31, 2022, which were primarily due to the increases in bill receivables collected over the corresponding years. It decreased to RMB296.3 million as at December 31, 2023 due to our collection efforts and the decrease in sales volume. Our trade receivables due from our associates accounted for nil, RMB5.2 million and RMB1.3 million as at December 31, 2021, 2022 and 2023, representing nil, 1.6% and 0.4% of our total trade and bills receivables as at the same dates, respectively.

As of the Latest Practicable Date, RMB77.2 million or 26.0% of the RMB296.3 million trade and bills receivables balance as of December 31, 2023 were subsequently settled.

The table below sets forth our trade receivables turnover days for the periods indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
Trade and bills receivables turnover days*(note)*	24	33	42

Note: Trade and bills receivables turnover days for a year equals the arithmetic mean of the beginning and ending trade and bills receivable balances (before impairment) divided by revenue for that year and multiplied by 365 days.

For the years ended December 31, 2021, 2022 and 2023, our average trade and bills receivables turnover days were 24 days, 33 days and slightly increased to 42 days, respectively. Our trade and bills receivables turnover days remained stable during the Track Record Period as we effectively managed our receivables and credit periods extended to customers with appropriate internal management system.

The table below sets forth an aging analysis based on the invoice date and net of loss allowance of our trade receivables as at the dates indicated:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 4 months	98,865	123,601	95,913
Over 4 months but within 6 months	65	17,612	–
Over 6 months but within 12 months	227	1,193	674
Total	99,157	142,406	96,587

The table below sets forth the maturity date analysis for bills receivables as at the dates indicated:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	76,999	112,436	80,859
Over 3 months but within 6 months	47,072	68,658	118,868
Over 6 months but within 12 months	11,130	3,479	–
Total	135,201	184,573	199,727

Based on the systems and policies we have in place, we believe that the collection of trade and bills receivables aged six months or older is not a material risk to our business and results of operations. We expect to collect these trade and bills receivables in the ordinary course of business at a rate that is largely in line with our historical performance. Generally, the credit periods we extend to our customers for trade receivables does not exceed 120 days. Based on our historical performance and collection history of trade and bill receivables, we believe that there is no recoverability issue for the trade and bills receivables as at December 31, 2023. We also believe that sufficient provision has been made according to the assessment of credit of our customers at the end of each reporting period.

Current Prepayments, Deposits and Other Receivables

Our current prepayments, deposits and other receivables consist of deposits and other receivables, prepayments, deductible input VAT, dividend receivables and loans to directors. Deposits and other receivables primarily include loans to related parties. Prepayments primarily include our prepayments for raw materials. Deductible input VAT represents our non-deducted input value-added tax. Dividend receivables primarily include dividends from our associates. The table below sets forth our prepayments, deposits and other receivables as at the dates indicated.

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due from related parties	1,008,171	13,255	59,414
– Linuo Investment (trade in nature)	7,309	4,800	–
– Hebei Kangshi (trade in nature)	–	5,000	3,000
– Xinkang Chemical (trade in nature)	–	–	10,326
– Linuo Group (non-trade in nature)	562,480	5	–
– Linuo Investment (non-trade in nature)	435,134	–	–
– Hebei Kangshi (non-trade in nature)	–	–	44,734
– others (non-trade in nature)	3,248	3,450	1,345
Deposits and other receivables	10,640	9,293	13,644
Prepayments	62,118	27,701	29,311
Deductible input VAT	13,234	12,811	31,711
Prepaid income tax	–	5,692	438
Other receivables	–	–	10,500
Loans to directors (non-trade in nature)	689	549	349
Total	**1,094,852**	**69,301**	**145,367**

Our current prepayments, deposits and other receivables decreased significantly from RMB1,094.9 million as at December 31, 2021 to RMB69.3 million as at December 31, 2022, primarily due to significant decrease in other receivables from Linuo Group and Linuo Investment. Our current prepayments, deposits and other receivables increased to RMB145.4 million as at December 31, 2023, primarily due to the increase in loans to Hebei Kangshi, increase in deductible input VAT and a payment we are entitled to from the dissolution of an investment we made in an investment fund.

The decrease of our amounts due from related parties from RMB1,008.1 million as of December 31, 2021, to RMB13.3 million as at December 31, 2022 as a result of dividends of RMB1,013.0 million and RMB89.8 million we declared in February 2022 (the "**February 2022 Dividend**") and December 2022 (the "**December 2022 Dividend**"), respectively. Linuo Group and Linuo Investment subsequently used RMB820.0 million of the February 2022 Dividend and RMB65.9 million of the December 2022 Dividend to repay our Group's receivables due from Linuo Group and Linuo Investment. For details, please refer to "— Dividend" in this section. As at December 31, 2023, amounts due from related parties of RMB59.4 million mainly represents loans to Hebei Kangshi of RMB44.7 million which is non-trade in nature.

As of the Latest Practicable Date, RMB55.5 million or 38.2% of the RMB145.4 million in prepayments, deposits and other receivables as of December 31, 2023 were subsequently settled. The non-trade outstanding amounts due from related parties and loans to directors will be settled prior to the [**REDACTED**].

Cash and Cash Equivalents and Pledged Deposits

Our cash and cash equivalents refer to cash and bank balances deducting pledged deposits. Our pledged deposits primarily include pledged time deposits for bills payable and letter of credit. The table below sets forth our cash and cash equivalents and pledged deposits as at the dates indicated.

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	118,965	148,126	105,560
Less: Pledged time deposits:	49,504	64,675	40,127
– Pledged for bills payable	39,433	10,000	–
– Pledged for letter of credit	10,071	50,174	40,127
– Others	–	4,501	–
Total	**69,461**	**83,451**	**65,433**

Our pledged time deposits increased from RMB49.5 million as at December 31, 2021 to RMB64.7 million as at December 31, 2022, primarily due to the increase in pledged time deposits for letter of credit, and partially offset by the decrease in pledged time deposits for bills payable. Our pledged time deposits decreased from RMB64.7 million as at December 31, 2022 to RMB40.1 million as at December 31, 2023 due to the decrease in pledged time deposits for bills payables and letter of credit.

Trade and Bills Payables

Our trade and bills payables mainly consist of payment obligations related to the purchase of raw materials and packaging materials. In addition to trade payables, which are our guarantees to make trade payables in accordance with the payment schedule, we also use bank acceptance bills, which are promised future payments by a bank, to facilitate the payment of the amounts due to our creditors.

The trade payables are non-interest bearing and are normally settled within 30 days. The table below sets forth our trade and bills payables as at the dates indicated:

	As at December 31,		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	125,250	161,228	149,705
Bills payable	71,000	10,000	–
Total	**196,250**	**171,228**	**149,705**

Trade and bills payables decreased from RMB196.3 million as at December 31, 2021 to RMB171.2 million as at December 31, 2022, primarily due to the maturity of bills payable to our suppliers. Our trade and bills payables further decreased to RMB149.7 million as at December 31, 2023, primarily due to shortened payment schedule and decrease in the amount of raw materials purchased.

The table below sets forth our average trade and bills payables turnover days for the years indicated:

	Year ended December 31,		
	2021	**2022**	**2023**
Trade and bills payables turnover days*(note)*	27	28	25

Note: Trade and bills payable turnover days for a year equals the arithmetic mean of the beginning and ending trade and bills payable balances divided by cost of sales for that year and multiplied by 365 days.

For the years ended December 31, 2021, 2022 and 2023, our average trade and bills payables turnover days were 27 days, 28 days and 25 days, respectively. Our trade and bills payables turnover days remain relatively stable during the Track Record Period.

The following table sets forth the aging analysis based on the posting date of our trade payables as at the dates indicated:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	123,829	156,772	149,444
1 year to 2 years	668	4,170	152
Over 2 years	753	286	109
Total	125,250	161,228	149,705

The following table sets forth the maturity date analysis of our bills payables as at the dates indicated:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	10,000	–
3 months to 6 months	25,000	–	–
6 months to 12 months	46,000	–	–
Total	71,000	10,000	–

As of the Latest Practicable Date, RMB56.0 million or 37.4% of the RMB149.7 million trade and bills payables as of December 31, 2023 were subsequently settled. Our Directors confirm that we had no material defaults in our trade and bills and other payables during the Track Record Period and up to the Latest Practicable Date.

Other Payables and Accruals

Our other payables and accruals include other tax payable, contract liabilities, other payables and payroll payables. Contract liabilities include short-term advances received to deliver industrial products. Other payables are non-interest-bearing, and mainly comprise of construction fees, transportation fees and spare parts fees. The table below sets forth our other payables and accruals as at the dates indicated:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Deferred output VAT	7,110	6,235	6,049
Contract liabilities	64,322	42,919	50,596
Amounts due to related parties	2,213	6,614	5,825
– included in other payables (trade in nature)	2,213	6,607	5,825
– included in other payables (non-trade in nature)	–	7	–
Other payables and accruals	159,880	159,248	160,878
– construction fees	55,880	53,144	61,315
– transportation expenses	46,546	50,414	49,383
– spare parts fees	27,250	23,372	17,881
– energies	5,724	10,252	6,185
– deposits and others	24,480	22,066	26,114
Accrued wages and salaries	24,704	27,022	19,990
Dividend payable	–	113,170	127,077
Other tax payable	4,944	6,878	2,556
Total	**263,173**	**362,086**	**372,971**

Our other payables and accruals increased from RMB263.2 million as at December 31, 2021 to RMB362.1 million as at December 31, 2022, primarily due to dividend payable of RMB113.2 million as at December 31, 2022. Other payables and accruals remained fairly stable at RMB373.0 million as at December 31, 2023. As of the Latest Practicable Date, RMB37.9 million or 75.0% of the RMB50.6 million in contract liabilities as of December 31, 2023 were subsequently recognized as revenue.

Our construction fees among other payables decreased from RMB55.9 million as at December 31, 2021 to RMB53.1 million as at December 31, 2022 due to the settlement of construction fees. The construction fees increased to RMB61.3 million as at December 31, 2023 due to the implementation of our production plant expansion. Our transportation expenses payable increased from RMB46.5 million as at December 31, 2021 to RMB50.4 million as at December 31, 2022 because of the increased use of bills for payment of our transportation fees, some of which were to be derecognized only upon maturity. Our transportation fee payable remained fairly stable at RMB49.4 million as at December 31, 2023.

Except for dividends payable to the out-of-contact shareholders, the balance for dividend payables has been settled as of the Latest Practicable Date. For the out-of-contact shareholders, we are undertaking continuous effort to contact these shareholders through news publication of the dividend payment, contacting these shareholders through their last known contact information, actively monitoring and responding to the municipal hotline and Wuhan Youji Employee Trust consultation hotline and encouraging word-of-the-mouth dissemination of this dividend payment by employees. We will make payment with internal resources to these shareholders in due course once they establish contact.

INDEBTEDNESS

Indebtedness Statement

The table below sets forth details of our indebtedness which includes (i) interest-bearing bank and other borrowings; and (ii) lease liabilities.

	As at December 31,			As at January 31,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	**716,107**	**734,300**	**917,520**	**969,520**
Bank loans repayable:				
– within one year	581,527	557,000	812,020	864,020
– After one year but within two years	–	30,000	65,500	65,500
– After two years but within five years	–	42,000	–	–
Other borrowings repayable:				
– within one year	134,580	105,300	40,000	40,000
Lease liabilities	**30,353**	**46,835**	**27,590**	**23,675**
Lease liabilities				
– current portion	7,262	16,308	15,850	12,587
– non-current portion	23,091	30,527	11,740	11,088
Total	**746,460**	**781,135**	**945,110**	**993,195**

Our Directors confirm that as of the Latest Practicable Date, the loan and borrowing agreements did not contain any covenant that would have a material adverse effect on our ability to make additional borrowings, issue debt or equity securities in the future. Our Directors further confirm that we had no material defaults in bank and other borrowings, nor did we breach any covenants (that were not waived) during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulties in obtaining credit facilities, or withdrawal of facilities, or receive requests for early repayment by banks and other institutions.

Save as disclosed under sections headed "— Indebtedness", we did not have any outstanding loan, capital issued or agreed to be issued, debt securities, mortgages, charges, debentures, bank overdrafts, loans, unutilized banking facilities or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase commitments or other contingent liabilities as of December 31, 2023.

Interest-Bearing Bank and Other Borrowings

Our interest-bearing bank and other borrowings were primarily borrowings to fund our operations in the ordinary course of business. The following table sets forth our interest-bearing bank and other borrowings as of the dates indicated.

	As at December 31,			As at January 31.
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans repayable:				
– within one year	581,527	557,000	812,020	864,020
– After one year but within two years	–	30,000	65,500	65,500
– After two years but within five years	–	42,000	–	–
Other borrowings repayable:				
– within one year	134,580	105,300	40,000	40,000
Total	**716,107**	**734,300**	**917,520**	**969,520**

During the Track Record Period, interest-bearing bank and other borrowings were all denominated in RMB. Our bank loans of RMB556.6 million of our total bank loans as at December 31, 2021, were guaranteed by entities controlled by a close family member of Mr. Gao, our director and substantial shareholder. Certain other borrowings with carrying amounts of RMB25.0 million as at December 31, 2021, were guaranteed by Linuo Group, a related party of our Group. These guarantees were subsequently released as of August 2022. As at December 31, 2023, none of our other borrowings were guaranteed by related parties.

The increase of our interest-bearing bank and other borrowings from RMB716.1 million as at December 31, 2021, to RMB734.3 million and RMB917.5 million as at December 31, 2022 and 2023, respectively. The increases were primarily due to additional loans financing for our daily business operation as well as for the expansion of production capacity.

Lease Liabilities

As at December 31, 2021, 2022 and 2023, our aggregated unpaid contractual lease payments (calculated by the present value of lease payments to be made over the lease term, including fixed payments) were RMB30.4 million, RMB46.8 million and RMB27.6 million in relation to the corresponding current and non-current lease liabilities. The table below sets forth the lease liabilities as of the dates indicated:

	As at December 31,			As at January 31.
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities				
– current portion	7,262	16,308	15,850	12,587
– non-current portion	23,091	30,527	11,740	11,088
Total	**30,353**	**46,835**	**27,590**	**23,675**

KEY FINANCIAL RATIOS

The following tables set forth certain of our key financial ratios as of the dates and for the periods indicated.

	Year ended December 31,		
	2021	2022	2023
Gross profit margin(1)	22.9%	22.3%	12.3%
Net profit margin(2)	11.1%	10.9%	2.7%
Return on equity(3)	20.3%	46.9%	13.8%
Return on assets(4)	10.5%	15.8%	3.4%

	As at December 31,		
	2021	2022	2023
Current Ratio(5)	1.4	0.7	0.6
Gearing Ratio(6)	29.2%	46.6%	61.3%

Notes:

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

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

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

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

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

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

Gross profit margin

For discussion about fluctuations of our gross profit margin during the Track Record Period, please refer to "— Discussion of Results of Operations" in this section.

Net profit margin

Our net profit margin decreased from 11.1% in 2021 to 10.9% in 2022 primarily because of the slight decrease in gross profit margin from 22.9% in 2021 to 22.3% in 2022. Our net profit margin further decreased to 2.7% due to the decrease in gross profit margin from 22.3% in 2022 to 12.3% in 2023.

Return on Equity

Our return on equity increased from 20.3% in 2021 to 46.9% in 2022 because of our increase in profit generated and the dividends declared in 2022 of RMB1,102.8 million in aggregate. Our return on equity was 13.8% for 2023, mainly attributable to the decrease in net profit for the year.

Return on Assets

Our return on assets increased from 10.6% in 2021 to 15.8% in 2022 because of the dividends declared in 2022 of RMB1,102.8 million in aggregate. Our return on assets decreased to 3.4% in 2023 primarily due to the decrease in net profit.

Current ratio

Our current ratio decreased from 1.4 as at December 31, 2021 to 0.7 as at December 31, 2022, primarily due to the dividends declared in 2022 of RMB1,102.8 million in aggregate. Our current ratio decreased slightly to 0.6 as at December 31, 2023 primarily due to the dividends declared in 2023 of RMB270 million. For details, please refer to "— Net Current Assets/Liabilities" in this section.

Gearing ratio

Our gearing ratio increased from 29.2% as at December 31, 2021 to 46.6% as at December 31, 2022, primarily due to a decrease in equity resulted from the dividend of RMB1,013.0 million and RMB89.8 million declared to shareholders in February and December 2022, respectively. Our gearing ratio increased to 61.3% due to the utilization of additional debt to finance our operations and expansion of production capacity. For details, please refer to "— Net Current Assets/Liabilities" in this section.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded our working capital and other capital expenditure requirements through a combination of income generated from our business operations, loans and investments received. The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Cash generated from operations before working capital changes	522,869	564,398	262,151
Changes in working capital	(380,227)	(220,661)	(90,023)
Income taxes paid	(18,409)	(195,375)	(11,599)
Net cash flows from operating activities	124,233	148,362	160,529
Net cash flows from/(used in) investing activities	(236,724)	53,904	(79,831)
Net cash flows from/(used in) financing activities	139,713	(188,969)	(98,905)
Net increase/(decrease) in cash and cash equivalents	27,222	13,297	(18,207)
Cash and cash equivalents at beginning of year	42,354	69,461	83,451
Effect of foreign exchange rate changes	(115)	693	189
Cash and cash equivalents at end of year	**69,461**	**83,451**	**65,433**

Net Cash Flows from Operating Activities

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

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

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

Net Cash Flows from/(Used in) Investing Activities

For the year ended December 31, 2023, our net cash flows used in investing activities were RMB79.8 million, primarily attributed to (i) loans to a joint-venture of RMB51.0 million, (ii) purchases of items of property, plant and equipment of RMB34.3 million, and (iii) a fund investment of RMB10.5 million, and was partially offset by dividends received from associates of RMB13.5 million.

For the year ended December 31, 2022, our net cash flows from investing activities were RMB53.9 million, primarily attributed to amounts received from loans to related parties of RMB171.5 million, and partially offset by purchases of items of property, plant and equipment of RMB83.0 million for operation of our production facilities and loans to related parties of RMB53.8 million.

For the year ended December 31, 2021, our net cash flows used in investing activities was RMB236.7 million, primarily attributed to purchases of items of property, plant and equipment of RMB51.3 million for operation of our production facilities, additions to right-of-use assets of RMB51.3 million and loans to related parties of RMB433.1 million, and partially offset by amounts received from loans to related parties of RMB286.5 million.

Net Cash Flows from/(Used in) Financing Activities

For the year ended December 31, 2023, we had RMB98.9 million of net cash flows used in financing activities, primarily attributed to the repayment of bank loans and other borrowings of RMB805.8 million and dividends paid of RMB256.1 million, and was partially offset by the proceeds from interest-bearing bank loan and other borrowings of RMB989.0 million.

For the year ended December 31, 2022, we had RMB189.0 million of net cash flows used in financing activities, primarily attributed to repayment of bank loans and other borrowings of RMB832.0 million, dividends payment of RMB103.7 million and payment for the share repurchase of RMB36.6 million, and partially offset by proceeds from interest-bearing bank loan and other borrowings of RMB850.1 million.

For the year ended December 31, 2021, we had RMB139.7 million of net cash flows from financing activities, primarily attributed to proceeds from interest-bearing bank loan and other borrowings of RMB937.8 million to fund the day-to-day operation of our business, and partially offset by the repayment of bank loans and other borrowings of RMB780.1 million from revenues generated from our operations.

Working Capital Confirmation

The Directors are of the opinion that, after due and careful inquiry and taking into account the following financial resources available to us described below, we have sufficient working capital to cover our operating costs for at least the next 12 months from the date of this document considering our:

- future operating cash flows;
- cash and cash equivalents;
- the available facilities maintained with financial institutions; and
- estimated net proceeds from the [**REDACTED**].

CAPITAL EXPENDITURES

Over the Track Record Period, principal capital expenditures related primarily to the purchase of equipment and the establishment of an automatic laboratory. The following table sets forth our capital expenditures for the periods indicated.

	Year ended December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Purchase of property, plant and equipment	153,026	164,118	163,622
Purchase of intangible assets	–	123	1,461
Purchase of leasehold land	51,258	12,563	21,996
Total	**204,284**	**176,804**	**187,079**

We expect to fund our future capital expenditures through cash generated from our business operations, various financing alternatives and the net proceeds from the [**REDACTED**]. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, results of operations and financial condition, our business plans, market conditions and various other factors. For details, please also refer to "Future Plans and Use of Proceeds – Use of Proceeds" in this section.

CONTINGENT LIABILITIES

During the Track Record Period and up to the Latest Practicable Date, we had no significant contingent liabilities.

CONTRACTUAL OBLIGATIONS

Capital Commitments

A summary of our capital commitments as at December 31, 2021, 2022 and 2023 are set forth in the following table:

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Plant and machinery	17,730	60,623	42,700
Total	**17,730**	**60,623**	**42,700**

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we do not have any off-balance sheet transactions.

RELATED PARTY TRANSACTIONS AND BALANCES

Historically, we have entered into transactions with related parties by means of purchases of goods or service, purchases of machinery, sales of goods or render of service, loans, borrowings, and repayments of borrowings. The tables below set forth the amounts due from and due to our related parties over the Track Record Period. For more details of our historical transactions with related parties, please refer to "Appendix I Accountants' Report – II Notes to the Historical Financial Information – 36. Related Party Transactions" in this document.

	As at December 31,		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Due from related parties			
Included in other receivables (non-trade in nature)	1,001,551	4,004	46,437
Included in trade receivables (trade in nature)	3,011	5,893	1,261
Included in other receivables (trade in nature)	7,309	9,800	13,326
Total amounts due from related parties	**1,011,871**	**19,697**	**61,024**
Due to related parties			
Included in other payables (non-trade in nature)	–	7	–
Included in other borrowings	20,000	–	–
Included in other payables (trade in nature)	2,213	6,607	5,825
Included in contract liabilities (trade in nature)	7	16	2
Included in trade payable (trade in nature)	–	–	139
Total amounts due to related parties	**22,220**	**6,630**	**5,966**

Over the Track Record Period, we leased properties from Twin Tigers Coatings, an entity controlled by a close member of our controlling shareholder, from July 13, 2020 to July 12, 2025. The amount of rent payable under the lease agreements was approximately RMB171,000 per month. Right-of-use assets and lease liabilities were recognized at the commencement date of the leases.

We have also leased properties from Linuo Investment, an entity controlled by a close member of our controlling shareholder for a lease period from January 1, 2021 to December 31, 2021. The amount of rent payable under the lease agreements was approximately RMB200,000 per month. We have applied short-term lease recognition exemption to this lease. In 2022, our Group entered into three long-term lease agreements for the lease of buildings from Linuo Investment. The first lease agreement is for a three years' lease term from January 1, 2022 to December 31, 2024 at a monthly rental fee of RMB0.6 million. The second agreement is for a thirty-one months' lease term from June 1, 2022 to December 31, 2024 at a monthly rental fee of RMB50,000. The third agreement is for a five-year lease term from July 1, 2022 to June 30, 2027 at an annual rental fee of RMB3.0 million. The new lease agreements have been recognized as lease liabilities and right-of-use assets.

Amounts Due from Related Parties

The amounts due from related parties primarily consist of loans we provided to these related parties. As at December 31 2021, 2022 and 2023, we recorded amounts due from related parties of RMB1,011.9 million, RMB19.7 million and RMB61.0 million, respectively. The amounts due from related parties of RMB1,011.9 million as at December 31, 2021 consisted mainly of RMB562.5 million in amounts due from Linuo Investment and RMB435.1 million from Linuo Group for loans we provided to these parties. Both entities are controlled by close associate of our controlling shareholder. As at December 31, 2022, the amounts due from related parties decreased to RMB19.7 million because other receivables due from related parties (non-trade nature) reduced significantly to RMB4.0 million, primarily as a result of the settlement of other receivables due from Linuo Group and Linuo Investment. As at December 31, 2023, the amounts due from related parties increased to RMB61.0 million mainly due to the loans to Hebei Kangshi in the amount of RMB44.7 million.

Except for the other receivables due from (i) Linuo Investment in relation to prepaid operation management service, (ii) Hebei Kangshi in relation to prepayment for purchase and (iii) Xinkang Chemical in relation to its purchase of our equipment, all other receivables due from related parties are non-trade in nature and will be settled prior to the [**REDACTED**].

Amounts Due to Related Parties

The amounts due to related parties consist of other payables, contract liabilities, trade payables and inter-company loans. As at December 31, 2021, 2022 and 2023, we recorded amounts due to related parties of RMB22.2 million, RMB6.6 million and RMB5.8 million, respectively. The amounts due to related parties of RMB22.2 million as at December 31, 2021 consisted of other borrowings of RMB20.0 million due to Yingcheng Wuhan Organic Material Co., Ltd. (應城市武瀚有機材料有限公司, the "**Yingcheng Wuhan Organic**"). The amount due to related parties decreased to RMB6.6 million as at December 31, 2022 as a result of the settlement of the other borrowing due to Yincheng Wuhan Organic, and partially offset by the increase of trade payables due to Xinkang Chemical. The amounts due to related parties remained stable at RMB6.0 million as at December 31, 2023.

The non-trade outstanding amounts due to related parties are expected to be settled prior to the [**REDACTED**].

Our Directors confirm that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our result of operations or render our historical results not reflective of our future performance.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to a variety of market risks, mainly including foreign currency risk, credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign Currency Risk

The transactional foreign currency exposures arises from sales in currencies other than our functional currencies. Approximately 22.0%, 23.0% and 23.0% of our sales for the periods ended December 31, 2021, 2022 and 2023 were denominated in currencies other than the functional currencies of the operating units making the sale, respectively. For further details of the sensitivity at the end of the reporting period to a reasonably possible change in exchange rate, please refer to "Appendix I Accountants' Report — II Notes to the Historical Financial Information — 38. Financial Risk Management Objectives and Policies — Foreign currency risk" in this document.

Credit Risk

The carrying amounts of cash and cash equivalents, prepayments, deposits and other receivables, and pledged deposits included in the statements of financial position represent our maximum exposure to credit risk in relation to our financial assets. As at December 31, 2021, 2022 and 2023, cash and cash equivalents and pledged deposits were deposited in established and credible banks without significant credit risk. The credit quality of our financial assets included in prepayments, deposits and other receivables is considered to be normal as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. For further details of our credit quality and maximum credit risk exposure, please refer to "Appendix I Accountants' Report – II Notes to the Historical Financial Information – 39. Financial Risk Management Objectives and Policies – Credit risk" in this document.

Liquidity Risk

The liquidity of our Group is primarily dependent on our ability to maintain adequate cash inflows from our profitable operations to meet payment obligations as they fall due and our ability to finance future capital expenditures. We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance the operations and mitigate the effects of fluctuations in cash flows. For the maturity profile of our financial liabilities as at the end of each of the Track Record Period, based on the contractual undiscounted payments, please refer to "Appendix I Accountants' Report – II Notes to the Historical Financial Information – 39. Financial Risk Management Objectives and Policies – Liquidity Risk" in this document.

DIVIDEND

Any declaration and payment of dividends will be subject to our constitutional documents and the Companies Act. We will review our dividend policy from time to time.

On February 28, 2022, the directors of our Company passed a series of resolutions for the distribution of a total dividends of RMB1,013.0 million to our sole shareholder, Cougar International Growth Holding II Ltd. (the "**February 2022 Dividend**"). On the same date, the directors of Cougar International Growth Holding II Ltd. passed resolutions for the distribution of the entire February 2022 Dividend declared by our Company to its sole shareholder Cougar Holdings Limited. Cougar Holdings Limited's shareholders then passed resolutions for the distribution of the February 2022 Dividend to its shareholders including Mr. Gao, Mr. Shen, Linuo Investment, Wuhan Youji Employee Trust and Hubei Tuopu. On March 31, 2022, based on an agreement entered into by Cougar Holdings Limited, Mr. Gao, Mr. Shen, Linuo Investment, Linuo Group, Wuhan Youji Employee Trust and Wuhan Youji, the relevant parties agreed that the total dividends of RMB820.0 million entitled by Mr. Gao, Mr. Shen and Linuo Investment would be used to offset our Group's receivables due from Linuo Group and Linuo Investment as of March 31, 2022.

On December 28, 2022, the directors of our Company passed a series of resolutions for the dividend distribution in the amount of RMB89.8 million to its shareholders including Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., FullFaith Capital Limited, NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd. (the "**December 2022 Dividend**"). Based on an agreement entered into by the above shareholders, Mr. Gao, Mr. Shen, Linuo Investment, Linuo Group and Wuhan Youji on December 28, 2022, the relevant parties agreed that RMB65.9 million of the total December 2022 Dividend entitled by Vastocean Capital Limited and SYM Holdings Limited will be used to offset our Group's receivables due from Linuo Group and Linuo Investment as of December 31, 2022.

On December 31, 2023, the directors of our Company passed a series of resolutions for the dividend distribution in the amount of RMB270.0 million to its shareholders including Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., FullFaith Capital Limited, NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd. (the "**December 2023 Dividend**"). This dividend was distributed as a cash dividend.

Among the February 2022 Dividend, the December 2022 Dividend, and the December 2023 Dividend of RMB1,372.8 million in aggregate, (i) RMB886.0 million in aggregate was used to offset our Group's receivables due from Linuo Group and Linuo Investment; (ii) dividends of RMB383.0 million in aggregate was paid in cash as of the Latest Practicable Date; and (iii) the remaining dividends payable of RMB103.8 million as of the Latest Practicable Date were distributed to the Wuhan Youji Employee Trust, which comprises 5,345 shareholders, including (a) 547 contactable shareholders (where dividends were fully settled as of the Latest Practicable Date) and (b) 4,798 shareholders that could not be contacted as of the Latest Practicable Date (with total dividend payable of RMB103.8 million as of the Latest Practicable Date). We are undertaking continuous effort to contact these shareholders through news publication of the dividend payment, contacting these shareholders through their last known contact information, actively monitoring and responding to the municipal hotline and Wuhan Youji Employee Trust consultation hotline and encourage word-of-the-mouth dissemination of this dividend payment by employees.

Our Board of Directors has the absolute discretion to decide whether to declare or distribute dividends in any particular point in time. We will implement our dividend policies in the future based on multi-factors including the business operation and financial position of our Group. Subject to the Cayman Islands law and the Articles and Memorandum, the proposal of payment and the amount of our dividends in the future will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Under Cayman Islands law, dividends may be paid out of profit or, if the Articles allow for it, out of share premium account of the Company provided relevant laws are complied with.

[**REDACTED**] EXPENSES

The total [**REDACTED**] expenses of our Company are estimated to be approximately HK$[**REDACTED**] (or approximately RMB[**REDACTED**]) assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of HK$[**REDACTED**] (being the mid-point of our [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**]), representing [**REDACTED**]% of our estimated net proceeds and [**REDACTED**]% of the gross proceeds from the [**REDACTED**]. These [**REDACTED**] expenses are mainly comprised of [**REDACTED**]-related expenses of approximately HK$[**REDACTED**] (or approximately RMB[**REDACTED**]), and non-[**REDACTED**] related expenses of approximately HK$[**REDACTED**] (or approximately RMB[**REDACTED**]), which are comprised of (i) accountant and legal adviser fees and expenses of approximately HK$[**REDACTED**] (or approximately RMB[**REDACTED**]) and (ii) printing and other fees and expenses of approximately HK$[**REDACTED**] (or approximately RMB[**REDACTED**]). The [**REDACTED**] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.

There were no [**REDACTED**] commissions incurred up to December 31, 2023 by our Company. The [**REDACTED**] expenses incurred up to same by our Company in relation to the [**REDACTED**] and the [**REDACTED**] were RMB[**REDACTED**], of which (i) RMB[**REDACTED**], RMB[**REDACTED**] and RMB[**REDACTED**] were charged to our consolidated statement of profit or loss for the year ended December 31, 2021, 2022 and 2023, respectively, and (ii) RMB[**REDACTED**] will be deducted from equity upon [**REDACTED**].

We estimate that additional [**REDACTED**] expenses of approximately RMB[**REDACTED**] (including [**REDACTED**] commissions and other expenses, assuming the [**REDACTED**] is not exercised and based on the mid-point of our [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**]) will be incurred by our Company, approximately RMB[**REDACTED**] of which is expected to be charged to our consolidated statements of profit or loss, and approximately RMB[**REDACTED**] of which is expected to be deducted from equity upon [**REDACTED**].

NO MATERIAL ADVERSE CHANGE

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

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the [**REDACTED**] on our consolidated net tangible assets as of December 31, 2023 as if the [**REDACTED**] had taken place on that date.

Our unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of December 31, 2023 or at any future dates following the [**REDACTED**]. It is prepared based on our audited consolidated net tangible assets as of December 31, 2023 as set out in the Accountant's Report in Appendix I to this document, and adjusted as described below. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to December 31, 2023:

	Consolidated net tangible assets attributable to owners of the Company as at December 31, 2023	**Estimated net proceeds from the [REDACTED]**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at December 31, 2023**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as at December 31, 2023**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as at December 31, 2023**
	RMB'000 (Note 1)	*RMB'000 (Note 2)*	*RMB'000*	*RMB (Note 3)*	*(HK$ equivalent) (Note 4)*
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	523,668	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	525,561	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	525,561	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

1. The consolidated net tangible assets of the Group attributable to equity holders of the parent as at December 31, 2023 were arrived at after deducting other intangible assets of RMB4,056,000 from the consolidated net assets attributable to owners of the parent as at December 31, 2023 of RMB529,617,000 set out in the Accountants' Report in Appendix I to this document.

2. The estimated net proceeds from the [**REDACTED**] are based on an [**REDACTED**] of HK$[**REDACTED**] per Share, HK$[**REDACTED**] per Share and HK$[**REDACTED**] per Share, after deduction of the [**REDACTED**] fees and other related expenses payable by the Company (excluding approximately RMB[**REDACTED**] which have been recognized in profit or loss up to December 31, 2023) and do not take into account any Shares which may be issued upon the exercise of the [**REDACTED**].

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to notes 1 and 2 above and on the basis that [**REDACTED**] Shares are in issue, assuming the [**REDACTED**] has been completed on December 31, 2023.

4. For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balances stated in RMB are converted into HK$ at the rate of RMB1.00 to HK$1.1008 prevailing on February 26, 2024.

5. No adjustments have been made to reflect the trading results or other transactions of the Group entered into after December 31, 2023.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to disclosure required under Rules 13.13 to 13.19 of the Listing Rules.