

APPENDIX I

ACCOUNTANTS’ REPORT

‘The following is the text of a report, prepared for the purpose of incorporation in this document, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

“[To insert the firm’s letterhead with official address]”

ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WUHAN YOUJI HOLDINGS LTD. AND BOCOM INTERNATIONAL (ASIA) LIMITED

INTRODUCTION

We report on the historical financial information of Wuhan Youji Holdings Ltd. (the “Company”, and previously known as Centelligence Holdings Ltd.) and its subsidiaries (together, the “Group”) set out on pages I-3 to I-[105], which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended December 31, 2021, 2022 and 2023 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2021, 2022 and 2023 and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-3 to I-[105] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the initial [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

DIRECTORS’ RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s

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preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at December 31, 2021, 2022 and 2023 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 3 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which contains information about dividends declared and paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

[●]

Certified Public Accountants

Hong Kong

[REDACTED]

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I. HISTORICAL FINANCIAL INFORMATION

Preparation of the Historical Financial Information

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

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended December 31,		
		2021	2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
REVENUE	5	2,789,477	3,133,836	2,677,103
Cost of sales		<u>(2,150,355)</u>	<u>(2,434,558)</u>	<u>(2,347,338)</u>
Gross profit		639,122	699,278	329,765
Other income and gains	5	39,901	34,514	25,505
Selling and distribution expenses		(19,820)	(24,009)	(20,717)
Administrative expenses		(100,457)	(116,498)	(95,416)
Research and development expenses		(110,831)	(133,001)	(99,959)
Other expenses		(22,753)	(5,366)	(4,798)
Finance costs	7	(34,066)	(31,026)	(32,281)
Share of profits and losses of:				
Joint venture	16	(6,010)	(8,044)	(11,834)
Associates	17	<u>8,450</u>	<u>11,842</u>	<u>4,473</u>
PROFIT BEFORE TAX	6	393,536	427,690	94,738
Income tax expense	10	<u>(84,399)</u>	<u>(87,220)</u>	<u>(21,836)</u>
PROFIT FOR THE YEAR		<u><u>309,137</u></u>	<u><u>340,470</u></u>	<u><u>72,902</u></u>

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	<i>Note</i>	Year ended December 31,		
		2021	2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Profit attributable to owners of the parent		<u>309,137</u>	<u>340,470</u>	<u>72,902</u>
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations		<u>(115)</u>	<u>693</u>	<u>189</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>(115)</u>	<u>693</u>	<u>189</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>309,022</u>	<u>341,163</u>	<u>73,091</u>
Attributable to owners of the parent		<u>309,022</u>	<u>341,163</u>	<u>73,091</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic and diluted (RMB)	<i>12</i>	<u>4.12</u>	<u>4.54</u>	<u>0.97</u>

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at December 31,		
		2021	2022	2023
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>			
NON-CURRENT ASSETS				
Property, plant and equipment	<i>13</i>	914,604	979,143	1,020,081
Right-of-use assets	<i>14</i>	178,275	192,187	190,527
Other intangible assets	<i>15</i>	4,413	3,573	4,056
Investment in a joint venture	<i>16</i>	30,997	23,502	11,668
Investments in associates	<i>17</i>	25,655	33,306	24,272
Prepayments	<i>21</i>	28,630	60,740	32,704
		<u>1,182,574</u>	<u>1,292,451</u>	<u>1,283,308</u>
CURRENT ASSETS				
Inventories	<i>19</i>	305,621	320,481	285,333
Trade and bills receivables	<i>20</i>	234,358	326,979	296,314
Prepayments, deposits and other receivables	<i>21</i>	1,094,852	69,301	145,367
Pledged deposits	<i>23</i>	49,504	64,675	40,127
Cash and cash equivalents	<i>23</i>	69,461	83,451	65,433
		<u>1,753,796</u>	<u>864,887</u>	<u>832,574</u>
CURRENT LIABILITIES				
Trade and bills payables	<i>24</i>	196,250	171,228	149,705
Other payables and accruals	<i>25</i>	263,173	362,086	372,971
Interest-bearing bank and other borrowings	<i>26</i>	716,107	662,300	852,020
Lease liabilities	<i>14</i>	7,262	16,308	15,850
Income tax payable		45,511	6,766	32,108
		<u>1,228,303</u>	<u>1,218,688</u>	<u>1,422,654</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>525,493</u>	<u>(353,801)</u>	<u>(590,080)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,708,067</u>	<u>938,650</u>	<u>693,228</u>

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		As at December 31,		
		2021	2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	<i>Notes</i>			
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	26	–	72,000	65,500
Government grants	27	39,950	49,026	45,740
Lease liabilities	14	23,091	30,527	11,740
Deferred tax liabilities	28	124,708	60,990	40,631
		<hr/>	<hr/>	<hr/>
Total non-current liabilities		187,749	212,543	163,611
		<hr/>	<hr/>	<hr/>
NET ASSETS		1,520,318	726,107	529,617
		<hr/>	<hr/>	<hr/>
EQUITY				
Equity attributable to owners of the parent:				
Share capital	29	339	48	48
Reserves	31	1,519,979	726,059	529,569
		<hr/>	<hr/>	<hr/>
TOTAL EQUITY		1,520,318	726,107	529,617
		<hr/>	<hr/>	<hr/>

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended December 31, 2021

	Attributable to owners of the parent						Total equity
	Share capital	Merger reserve	Other reserves	Statutory reserve	Retained profits	Exchange fluctuation reserve	
	<i>RMB'000</i> <i>(note 29)</i>	<i>RMB'000</i> <i>(note 31)</i>	<i>RMB'000</i> <i>(note 31)</i>	<i>RMB'000</i> <i>(note 31)</i>	<i>RMB'000</i>	<i>RMB'000</i>	
At January 1, 2021	339	64,802	–	68,712	1,077,198	(174)	1,210,877
Profit for the year	–	–	–	–	309,137	–	309,137
Other comprehensive loss for the year:							
Exchange differences related to foreign operations	–	–	–	–	–	(115)	(115)
Total comprehensive income/(loss) for the year	–	–	–	–	309,137	(115)	309,022
Share award scheme arrangements (<i>note 30</i>)	–	–	419	–	–	–	419
At December 31, 2021	<u>339</u>	<u>64,802*</u>	<u>419*</u>	<u>68,712*</u>	<u>1,386,335*</u>	<u>(289)*</u>	<u>1,520,318</u>

Year ended December 31, 2022

	Attributable to owners of the parent						Total equity	
	Share capital	Merger reserve	Capital reserve	Other reserves	Statutory reserve	Retained profits		Exchange fluctuation reserve
	<i>RMB'000</i> <i>(note 29)</i>	<i>RMB'000</i> <i>(note 31)</i>	<i>RMB'000</i> <i>(note 31)</i>	<i>RMB'000</i> <i>(note 31)</i>	<i>RMB'000</i> <i>(note 31)</i>	<i>RMB'000</i>		<i>RMB'000</i>
At January 1, 2022	339	64,802	–	419	68,712	1,386,335	(289)	1,520,318
Profit for the year	–	–	–	–	–	340,470	–	340,470
Other comprehensive income for the year:								
Exchange differences related to foreign operations	–	–	–	–	–	–	693	693
Total comprehensive income for the year	–	–	–	–	–	340,470	693	341,163
Repurchase of shares (<i>note 29</i>)	(339)	–	(32,670)	–	–	–	–	(33,009)
Issue of shares (<i>note 29</i>)	48	–	–	–	–	–	–	48
Dividend distributions (<i>note 11</i>)	–	–	–	–	–	(1,102,832)	–	(1,102,832)
Share award scheme arrangements (<i>note 30</i>)	–	–	–	419	–	–	–	419
At December 31, 2022	<u>48</u>	<u>64,802*</u>	<u>(32,670)*</u>	<u>838*</u>	<u>68,712*</u>	<u>623,973</u>	<u>404*</u>	<u>726,107</u>

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Year ended December 31, 2023

	Attributable to owners of the parent							Total equity
	Share capital	Merger reserve	Capital reserve	Other reserves	Statutory reserve	Retained profits	Exchange fluctuation reserve	
	RMB'000 (note 29)	RMB'000 (note 31)	RMB'000 (note 31)	RMB'000 (note 31)	RMB'000 (note 31)	RMB'000	RMB'000	RMB'000
At January 1, 2023	48	64,802	(32,670)	838	68,712	623,973	404	726,107
Profit for the year	-	-	-	-	-	72,902	-	72,902
Other comprehensive income for the year:								
Exchange differences related to foreign operations	-	-	-	-	-	-	189	189
Total comprehensive income for the year	-	-	-	-	-	72,092	189	73,091
Dividend distributions (note 11)	-	-	-	-	-	(270,000)	-	(270,000)
Share award scheme arrangements (note 30)	-	-	-	419	-	-	-	419
At December 31, 2023	<u>48</u>	<u>64,802*</u>	<u>(32,670)*</u>	<u>1,257*</u>	<u>68,712*</u>	<u>426,875*</u>	<u>593*</u>	<u>529,617</u>

* These reserve accounts comprise the consolidated reserves of RMB1,519,979,000, RMB726,059,000 and RMB529,569,000 as at December 31, 2021, 2022 and 2023, respectively.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	<i>Notes</i>	Year ended December 31,		
		2021	2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		393,536	427,690	94,738
Adjustments for:				
Finance costs	7	34,066	31,026	32,281
Interest income	5	(19,295)	(5,632)	(3,310)
Depreciation of property, plant and equipment	13	93,697	99,123	111,198
Depreciation of right-of-use assets	14	9,743	18,592	19,809
Amortisation of other intangible assets	15	1,015	963	978
Share award scheme expenses	30	419	419	419
Loss/(gain) on disposal of property, plant and equipment and lease modification	5, 6	15,174	271	(84)
Income from government grants related to assets	5, 27	(3,230)	(4,570)	(5,353)
Share of loss of a joint venture	16	6,010	8,044	11,834
Share of profits of associates	17	(8,450)	(11,842)	(4,473)
Write-down of inventories	6	–	–	1,764
Impairment/(reversal of impairment) of trade receivables	20	184	314	(188)
Impairment of construction in progress	13	–	–	2,538
		522,869	564,398	262,151
Decrease/(increase) in inventories		(189,491)	(14,860)	33,384
Increase in trade and bills receivables		(264,323)	(205,084)	(90,972)
Decrease/(increase) in prepayments, deposits and other receivables		(34,486)	36,886	(11,985)
Increase/(decrease) in contract liabilities		19,345	(21,403)	7,677
Increase/(decrease) in trade and bills payables		75,188	(24,882)	(21,523)
Increase/(decrease) in other payables and accruals		13,540	8,682	(6,604)
Cash generated from operations		142,642	343,737	172,128
Income taxes paid		(18,409)	(195,375)	(11,599)
Net cash generated from operating activities		124,233	148,362	160,529

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		Year ended December 31,		
		2021	2022	2023
Notes		RMB’000	RMB’000	RMB’000
CASH FLOWS FROM INVESTING ACTIVITIES				
	Purchases of items of property, plant and equipment	(51,315)	(61,603)	(34,341)
	Investment in a fund	–	–	(30,500)
	Withdrawal of investment in a fund	–	–	20,000
	Prepayment for leasehold land	–	(21,350)	–
	Additions to right-of-use assets	14 (51,258)	(102)	(646)
	Additions to other intangible assets	15 –	(123)	(1,461)
	Interest received from bank deposits	1,775	1,312	2,278
	Loans to related parties	32(a) –		
		36(b) (433,137)	(53,845)	–
	Loans to a joint venture	36(b) –	–	(50,955)
	Received from loans to related parties	36(b) 286,466	171,464	205
	Proceeds from disposal of property, plant and equipment	59	4	–
	Dividend received from associates	17 4,256	–	13,522
	Receipt of government grants for acquisition of assets	27 6,430	13,646	2,067
	Proceeds from liquidation of an associate	17 –	4,501	–
	Net cash flows (used in)/from investing activities	(236,724)	53,904	(79,831)
CASH FLOWS FROM FINANCING ACTIVITIES				
	Payments for transaction costs for the issue of shares	(2,016)	(4,790)	(2,982)
	Interest paid	32(b) (32,379)	(28,630)	(30,356)
	Proceeds from interest-bearing bank loans and other borrowings	937,837	850,147	989,020
	Repayment of bank loans and other borrowings	(780,073)	(831,954)	(805,800)
	Lease payments (including related interest)	14 (8,123)	(18,316)	(17,242)
	Placement of pledged bank deposits	(109,532)	(84,695)	(56,780)
	Withdrawal of pledged bank deposits	133,999	69,524	81,328
	Dividends paid	–	(103,700)	(256,093)
	Payment for the share repurchase	29 –	(36,555)	–

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	<i>Notes</i>	Year ended December 31,		
		2021	2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net cash flows (used in)/from financing activities		139,713	(188,969)	(98,905)
NET INCREASE IN CASH AND CASH EQUIVALENTS		27,222	13,297	(18,207)
Cash and cash equivalents at beginning of year		42,354	69,461	83,451
Effect of foreign exchange rate changes		(115)	693	189
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	<u>69,461</u>	<u>83,451</u>	<u>65,433</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		<u>69,461</u>	<u>83,451</u>	<u>65,433</u>

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STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at December 31,		
		2021	2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	<i>Notes</i>			
NON-CURRENT ASSETS				
Investment in a subsidiary	18	431,724	431,724	431,724
CURRENT ASSETS				
Cash and cash equivalents		–	283	267
Amount due from a subsidiary	21	–	113,170	127,077
Prepayments, deposits and other receivables	21	3,410	9,066	9,909
Total current assets		3,410	122,519	137,253
CURRENT LIABILITIES				
Dividend payable	25	–	113,170	127,077
Amounts due to subsidiaries	25	11,250	31,401	42,379
Total current liabilities		11,250	144,571	169,456
NET CURRENT LIABILITIES		(7,840)	(22,052)	(32,203)
NET ASSETS		423,884	409,672	399,521
EQUITY				
Share capital	29	339	48	48
Retained earnings/ (accumulated losses)	31	(7,840)	10,909	758
Capital reserve	31	431,385	398,715	398,715
TOTAL EQUITY		423,884	409,672	399,521

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II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

Wuhan Youji Holdings Ltd. was incorporated in the Cayman Islands as an exempted company with limited liability on September 23, 2016. The registered address of the office of the Company is PO Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1106, Cayman Islands. The principal place of business of the Company is 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

The Company is an investment holding company. During the Relevant Periods, the major subsidiaries of the Company were principally engaged in the manufacturing and sales of products from the oxidation, chlorinating process of toluene, and ammonification process of benzoic acid in the People’s Republic of China (the “PRC”).

In the opinion of the directors of the Company, Cougar Holdings Limited (“Cougar Holdings”) was the then ultimate holding company of the Company at December 31, 2020 and 2021, and Vastocean Capital Limited was the ultimate holding company of the Company at December 31, 2022 and 2023.

Information about subsidiaries

As of the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (if incorporated outside Hong Kong have substantially similar characteristics to a private company), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Centelligence Holdings Limited. <i>(Note a)</i>	British Virgin Islands (“BVI”) September 27, 2016	United States Dollars (“USD”) 50 thousand	100%	–	Investment-holding
Centelligence International Holdings Limited <i>(Note e)</i>	Hong Kong November 4, 2016	USD59.58 million	–	100%	Investment-holding
Wuhan International Holding I Limited <i>(Note a)</i>	BVI May 26, 2016	USD50 thousand	–	100%	Investment-holding
Wuhan International Holding II Limited <i>(Note a)</i>	BVI May 26, 2016	USD50 thousand	–	100%	Investment-holding
Wuhan Youji Industries Co., Ltd.* (“Wuhan Youji”) <i>(Note b and c)</i> 武漢有機實業有限公司	The PRC/Mainland China January 12, 1990	RMB55.84 million	–	100%	Toluene organic manufacturing
Qianjiang Xinyihong Organic Chemical Co., Ltd.* <i>(Note b and d)</i> 潛江新億宏有機化工有限公司	The PRC/Mainland China December 5, 2006	RMB30 million	–	100%	Toluene organic manufacturing
Hubei Kangxin Chemical Trading Co., Ltd.* <i>(Note a and d)</i> 湖北康新化工貿易有限責任公司	The PRC/Mainland China December 12, 2018	RMB50 million	–	100%	Toluene trading

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Name	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hubei Xinxuanhong New Materials Co., Ltd.* (Notes a and d) 湖北新軒宏新材料有限公司	The PRC/Mainland China January 5, 2021	RMB50 million	-	100%	Toluene organic manufacturing
Hubei Xinlianhong New Materials Technology Co.,Ltd.* (Notes a and d) 湖北新連宏新材料科技有限公司	The PRC/Mainland China November 28,2022	RMB20 million	-	100%	Toluene organic research & development
Wuhan Youji (Hong Kong) Co., Limited* (Note e) 武漢有機(香港)有限公司	Hong Kong June 10, 2016	Hong Kong Dollars (“HKD”) 10 thousand	-	100%	Product trading

- (a) No audited financial statements have been prepared for these entities since their date of incorporation or registration as they are not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation or registration.
- (b) The statutory financial statements of the entities for the years ended December 31, 2021 and 2022 prepared under the PRC Generally Accepted Accounting Principles were audited by Hubei Gongxin Certified Public Accountants Co., Ltd. (湖北公信會計師事務所有限公司), a certified public accountant registered in the PRC.
- (c) Wuhan Youji is registered as a wholly-foreign-owned enterprise under the laws of the PRC.
- (d) Qianjiang Xinyihong Organic Chemical Co., Ltd. (潛江新億宏有機化工有限公司), Hubei Kangxin Chemical Trading Co., Ltd. (湖北康新化工貿易有限責任公司), Hubei Xinxuanhong New Materials Co., Ltd. (湖北新軒宏新材料有限公司), Hubei Xinlianhong New Materials Technology Co.,Ltd. (湖北新連宏新材料科技有限公司) are limited liability companies established under the laws of the PRC.
- (e) The statutory financial statements of these entities for the year ended December 31, 2020 and 2021 prepared in accordance with Hong Kong Small and Medium-sized Entity Financial Reporting Standard (“SME-FRS”) were audited by G&H CPA Limited (港浩會計師事務所有限公司), a certified public accountant registered in Hong Kong.

The statutory financial statements of these entities for the year ended December 31, 2022 prepared in accordance with SME-FRS were audited by SINNO INTERNATIONAL CPA LIMITED (信諾中創國際會計師有限公司), a certified public accountant registered in Hong Kong.

- * The English names of these subsidiaries registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as these subsidiaries do not have official English names.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. All HKFRSs effective for the accounting period commencing from January 1, 2023, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention except for bills receivable and investment in a fund which have been measured at fair value at the end of each of the Relevant Periods.

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Basis of going concern assumption

Despite that the Group had net current liabilities of approximately RMB590 million and capital commitments of approximately RMB43 million as at December 31, 2023, the directors of the Company is of the opinion that the Group will have adequate funds available to enable it to operate as a going concern after taking into account the historical operating performance and future forecasted operating cash inflow of the Group and its available credit facilities of approximately RMB712 million to meet its financial obligations as they fall due for the following twelve months. Accordingly, this Historical Financial Information has been prepared on the going concern basis.

Basis of consolidation

The Historical Financial Information includes the financial information of the Company and its subsidiaries (collectively referred to as the “Group”) for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following revised HKFRSs that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{1,3}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ^{1,3}
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to HKAS 21	<i>Lack of Exchangeability</i> ⁴

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- ¹ Effective for annual periods beginning on or after January 1, 2024
- ² No mandatory effective date yet determined but available for adoption
- ³ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion
- ⁴ Effective for annual periods beginning on or after January 1, 2025

The Group is in the process of making a detailed assessment of the impact of these revised HKFRSs upon initial application. So far, the Group considers that these revised HKFRSs may result in changes in certain accounting policies and are unlikely to have a significant impact on the Group’s results of operations and financial position in the period of initial application.

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

Investment in a subsidiary

In the Company’s statements of financial position, an investment in a subsidiary is stated at cost less any impairment losses unless the investment is classified as held for sale (or included in a disposal group) and accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Dividends from a subsidiary are recognized in the Company’s profit or loss when the Company’s right to receive the dividends is established.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group’s investments in associates and joint ventures are stated in the consolidated statements of financial position at the Group’s share of net assets under the equity method of accounting, less any impairment losses.

The Group’s share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group’s investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group’s investments in associates or joint ventures.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5.

Fair value measurement

The Group measures its bills receivables and investment in a fund at fair value at the end of each of the reporting periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset

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or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the reporting periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, inventories and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the reporting periods as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same Group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

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- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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Patents and licenses

Purchased patents and licenses are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 years. The estimated useful life of intangible assets is determined by considering the period of the economic benefits to the Group and period of validity protected by the relevant laws.

Software

Software is stated at cost less any impairment loss and is amortised on the straight-line basis over its estimated useful life of 10 years, which is determined based on the expected technological lives of the software.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold land	5-50 years
Buildings	2.6-5 years
Storage tanks	3-7 years
Motor vehicles	3-5 years

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

(b) Lease liabilities

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

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

(c) Short-term leases

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

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

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

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

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined *under HKFRS 15 Revenue from Contracts with Customers* in accordance with the policies set out for “Revenue recognition” below.

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

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

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

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Subsequent measurement

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

Financial assets at amortized cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statements of financial position) when:

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

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

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

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available

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without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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

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

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of liabilities at amortised cost, net of directly attributable transaction costs.

Subsequent measurement

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

Financial liabilities at amortized cost

After initial recognition, interest-bearing loans and borrowings and payables are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

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Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statements of financial positions comprise cash on hand and at banks, and short-term demand deposits, which are subject to an insignificant risk of changes in value and held for the purpose of meeting short term cash commitments.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and at banks, as defined above, less any bank overdrafts, which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of each of the reporting periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and does not give rise to equal taxable and deductible temporary differences;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and does not give rise to equal taxable and deductible temporary differences;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each Relevant Periods and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method.

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For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of industrial products

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

Other income

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

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

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

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

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Group operates a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using the discounted cash flow method.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Other employee benefits

Pension scheme

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. The Group’s employee contributions vest fully with the employees when contributed into the scheme and there are no forfeited contributions that may be used by the Group.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the Historical Financial Information.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information is presented in Renminbi (RMB), which is the Company's functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the reporting periods. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liabilities relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liabilities arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each reporting period and their profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for each of the reporting periods.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of a customer’s actual default in the future. The information about the ECLs on the Group’s trade receivables is disclosed in note 20 to the Historical Financial Information.

Provision for expected credit losses on other receivables

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

Leases – Estimating the incremental borrowing rate

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

Deferred tax assets

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

4. OPERATING SEGMENT INFORMATION

Operating Segment information

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of the resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical Information

- (a) Details of the revenue from external customers by geographical market are included in note 5 to the Historical Financial information.
- (b) Non-current assets

As at the end of each of the Relevant Periods, all of the Group’s non-current assets were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8.

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Information about a major customer

Revenue from a major external customer is as follows:

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Customer A	378,914	N/A*	N/A*

* less than 10% of the Group’s revenue.

5. REVENUE AND OTHER INCOME AND GAINS

Revenue from contracts with customers

An analysis of revenue is as follows:

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue from contracts with customers	2,789,477	3,133,836	2,677,103

(a) Disaggregated revenue information

Types of goods or services	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Sale of industrial products	2,789,477	3,133,836	2,677,103

Geographical markets	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Mainland China	2,171,112	2,452,017	2,060,003
Asia (except Mainland China)	262,513	308,110	287,508
America	212,821	159,116	135,882
Europe	119,477	185,654	175,848
Other countries/regions	23,554	28,939	17,862
Total revenue from contracts with customers	2,789,477	3,133,836	2,677,103

The revenue information above is based on the locations of the customers.

Timing of revenue recognition	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Goods transferred at a point in time	2,789,477	3,133,836	2,677,103

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For the years ended December 31, 2021, 2022 and 2023, the amounts of revenue from sale of industrial products of RMB44,977,000, and RMB64,322,000, RMB42,919,000, respectively, were recognized that were included in the contract liabilities at the beginning of each of the Relevant Periods.

(b) Performance obligations

Information about the Group’s performance obligations is summarized below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 30 to 120 days from delivery, where payment in advance is normally required.

As the remaining performance obligations (unsatisfied or partially satisfied) as at December 31, 2021, 2022 and 2023 are part of contracts that have an original expected duration of one year or less, the transaction price allocated to them is not separately disclosed, as permitted by the practical expedient as required by HKFRS 15.

Other income and gains

	Year ended December 31,		
	2021	2022	2023
	RMB’000	RMB’000	RMB’000
Other income			
Interest income	19,295	5,632	3,310
Government grants related to income*	3,882	12,447	6,425
Government grants related to assets** (note 27)	3,230	4,570	5,353
Sundry income	10,767	6,009	2,669
Entrusted processing service income	959	1,248	1,398
Rental income – fixed lease payments (note 14)	1,562	1,774	1,774
Gain on disposal of items of property, plant and equipment	–	–	3
Gain on lease modification	–	–	81
Other gains			
Foreign exchange differences, net	–	2,268	3,617
Others	206	566	875
	<u>39,901</u>	<u>34,514</u>	<u>25,505</u>

* The government grants represent subsidies received from the local governments for the purpose of compensation of expenses incurred by the Group, including foreign trade development, land use tax, research, off-peak electricity consumption, and certain employee related costs.

** Government grants related to assets are those received for purchase of assets. If the related capital expenditure has not yet been undertaken, the grants received are included in government grants in the consolidated statements of financial position. For those grants for which capital expenditures have been undertaken, the amounts received are released to profit or loss over the expected useful lives of the relevant assets. There are no unfulfilled conditions or contingencies relating to these grants (note 27).

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6. PROFIT BEFORE TAX

The Group’s profit before tax is arrived at after charging/(crediting):

	Notes	Year ended December 31,		
		2021	2022	2023
		RMB’000	RMB’000	RMB’000
Cost of inventories sold		2,150,355	2,434,558	2,347,338
Research and development costs (current year expenditures)		110,831	133,001	99,959
Depreciation of property, plant and equipment	13	93,697	99,123	111,198
Amortization of other intangible assets*	15	1,015	963	978
Depreciation of right-of-use assets	14	9,743	18,592	19,809
Write-down of inventories to net realizable value		–	–	1,764
Loss/(gain) on disposal of items of property, plant and equipment, net		15,174	271	(3)
Gain on lease modification		–	–	(81)
Impairment/reversal of impairment of trade receivables	20	184	314	(188)
Foreign exchange differences, net		2,930	(2,268)	(3,617)
Auditor’s remuneration		129	137	151
[REDACTED] expenses		[REDACTED]	[REDACTED]	[REDACTED]
Employee benefit expense (including directors’ emoluments):				
Salaries, allowances and benefits in kind		69,748	81,553	66,117
Share award scheme expenses	30	419	419	419
Performance-based bonuses		15,666	11,643	–
Pension scheme contributions**		12,672	16,052	15,753
		<u>98,505</u>	<u>109,667</u>	<u>82,289</u>

* The amortization of other intangible assets for each of the Relevant Periods is included in “Administrative expenses” in profit or loss.

** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Note	Year ended December 31,		
		2021	2022	2023
		RMB’000	RMB’000	RMB’000
Interest on bank and other borrowings		30,894	27,832	30,267
Interest on discounted bills		1,485	798	89
Interest on lease liabilities	14	1,687	2,396	1,925
		<u>34,066</u>	<u>31,026</u>	<u>32,281</u>

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8. DIRECTORS’ AND CHIEF EXECUTIVE’S REMUNERATION

Directors’ and chief executive’s remuneration as recorded in each of the Relevant Periods, disclosed pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is set out below:

An executive director and a chief executive of the Company received remuneration from a subsidiary of the Company during each of the Relevant Periods prior to their appointment as a director and chief executive of the Company. The remuneration of them is included in the Historical Financial Information as follows:

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	3,314	3,717	3,811
Performance-based bonuses*	4,700	5,317	–
Equity-settled share award expenses	88	88	29
Pension scheme contributions	180	180	108
	<u>8,282</u>	<u>9,302</u>	<u>4,007</u>

* Certain executive directors of the Company were entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

(a) Independent non-executive directors

The Company did not have any independent non-executive directors at any time before December 31, 2023.

(b) Executive directors, non-executive directors and the chief executive

Year ended December 31, 2021

	Fees	Salaries, allowances, and benefits in kind	Equity- settled share award expenses	Performance- based bonuses	Pension scheme contributions	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Executive directors:						
Mr. Zou Xiaohong (note (i))	–	1,271	25	2,200	–	3,496
Mr. Chen Ping (note (ii))	–	511	14	300	90	915
	<u>–</u>	<u>1,782</u>	<u>39</u>	<u>2,500</u>	<u>90</u>	<u>4,411</u>
Non-executive directors:						
Mr. Gao Lei (note (iii))	–	–	–	–	–	–
Mr. Shen Yingming (note (iv))	–	–	24	–	–	24
	<u>–</u>	<u>–</u>	<u>24</u>	<u>–</u>	<u>–</u>	<u>24</u>
Chief executive:						
Mr. Zhou Xu (note (v))	–	1,532	25	2,200	90	3,847
	<u>–</u>	<u>3,314</u>	<u>88</u>	<u>4,700</u>	<u>180</u>	<u>8,282</u>

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Year ended December 31, 2022

	Fees	Salaries, allowances and benefits in kind	Equity-settled share award expenses	Performance- based bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:						
Mr. Zou Xiaohong (<i>note (i)</i>)	–	1,358	25	2,489	–	3,872
Mr. Chen Ping (<i>note (ii)</i>)	–	743	14	339	78	1,174
	–	2,101	39	2,828	78	5,046
Non-executive directors:						
Mr. Gao Lei (<i>note (iii)</i>)	–	–	–	–	–	–
Mr. Shen Yingming (<i>note (iv)</i>)	–	–	24	–	–	24
Ms. Li Deye (<i>note (vi)</i>)	–	–	–	–	–	–
	–	–	24	–	–	24
Chief executive:						
Mr. Zhou Xu (<i>note (v)</i>)	–	1,616	25	2,489	102	4,232
	–	3,717	88	5,317	180	9,302

Year ended December 31, 2023

	Fees	Salaries, allowances and benefits in kind	Equity-settled share award expenses	Performance- based bonuses	Pension scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors:						
Mr. Zou Xiaohong (<i>note (i)</i>)	–	1,464	25	–	–	1,488
Mr. Chen Ping (<i>note (ii)</i>)	–	919	14	–	–	933
	–	2,382	39	–	–	2,421
Non-executive directors:						
Mr. Gao Lei (<i>note (iii)</i>)	–	–	–	–	–	–
Mr. Shen Yingming (<i>note (iv)</i>)	–	–	24	–	–	24
Ms. Li Deye (<i>note (vi)</i>)	–	–	–	–	–	–
	–	–	24	–	–	24
Chief executive:						
Mr. Zhou Xu (<i>note (v)</i>)	–	1,429	25	–	108	1,562
	–	3,811	88	–	108	4,007

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- (i) Mr. Zou Xiaohong was appointed as an executive director of the Company on March 25, 2022.
- (ii) Mr. Chen Ping was appointed as an executive director of the Company on September 23, 2016.
- (iii) Mr. Gao Lei was appointed as a non-executive director of the Company on September 23, 2016.
- (iv) Mr. Shen Yingming was appointed as a non-executive director of the Company on September 23, 2016.
- (v) Mr. Zhou Xu was appointed as the chief executive of the Company on March 25, 2022.
- (vi) Ms. Li Deye was appointed as a non-executive director of the Company on March 25, 2022.

During the Relevant Periods, no remuneration was paid or payable by the Group to the directors and chief executive as an inducement to join or upon joining the Group or as compensation for the loss of office.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended December 31, 2021, 2022 and 2023 included two, two and three directors and chief executive, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining three, three and two highest paid employees who are neither a director nor chief executive of the Company during the years ended December 31, 2021, 2022 and 2023 are as follows:

	Year ended December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	1,489	1,963	1,413
Performance-based bonuses	2,400	2,716	–
Equity-settled share award expenses	41	41	41
Pension scheme contributions	270	307	217
	<u>4,200</u>	<u>5,027</u>	<u>1,671</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees		
	Year ended December 31,		
	2021	2022	2023
HK\$ nil to HK\$1,000,000	–	–	1
HK\$1,000,001 to HK\$1,500,000	3	3	1
	<u>3</u>	<u>3</u>	<u>1</u>

There was no emolument paid by the Group to any of the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for the loss of office during the Relevant Periods.

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10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Current – Hong Kong	283	129	89
Current – Mainland China	47,453	32,984	12,106
Current – Withholding Tax	–	117,825	30,000
Deferred (<i>note 28</i>)	36,663	(63,718)	(20,359)
	<u>84,399</u>	<u>87,220</u>	<u>21,836</u>
Total tax charge	<u>84,399</u>	<u>87,220</u>	<u>21,836</u>

Cayman Islands and British Virgin Islands

Under the current tax laws of the Cayman Islands and British Virgin Islands, the Company and its subsidiaries incorporated in Cayman Islands and BVI are not subject to tax on income or capital gains.

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during each of the Relevant Periods, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Mainland China

The provision for corporate income tax in Mainland China is based on the statutory rate of 25% of the taxable profits determined in accordance with the PRC Corporate Income Tax Law, except for Wuhan Youji Industries Co., Ltd. and Qianjiang Xinyihong Organic Chemical Co., Ltd., which were qualified as a High and New Technology Enterprise to enjoy a preferential income tax rate of 15% for each of the Relevant Periods.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the country or jurisdictions in which the Group are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Profit before tax	393,536	427,690	94,738
Tax charged at the statutory tax rates	98,316	111,282	26,808
Preferential tax rate reduction	(39,268)	(46,586)	(10,835)
Profits and losses attributable to a joint venture and associates	(610)	(950)	1,840
Expenses not deductible for tax purpose	188	452	233
Additional tax deduction for research and development expenses	(8,540)	(16,780)	(5,489)
Withholding tax on undistributed profits of subsidiaries in Mainland China*	34,396	39,802	9,279
Others	(83)	–	–
	<u>84,399</u>	<u>87,220</u>	<u>21,836</u>
Tax charge at the Group’s effective rate	<u>84,399</u>	<u>87,220</u>	<u>21,836</u>

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* Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

At December 31, 2021, 2022 and 2023, deferred tax liabilities have been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries established in Mainland China. The current withholding tax for the year ended December 31, 2022 and 2023 represents the income tax payable for the dividends distribution of a subsidiary of the Group in Mainland China to its shareholders in BVI.

11. DIVIDENDS

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Final dividends declared	–	1,102,832	270,000

On February 28, 2022, dividends of RMB1,048,975,210 were declared by a wholly-owned subsidiary, Centelligence Holdings Limited to the Company. On the same day, the directors of the Company passed two resolutions for the distribution of dividends of RMB1,012,975,210 to its sole shareholder, Cougar International Growth Holding II Ltd. (“Cougar International”), and on the same day, the directors of Cougar International passed two resolutions for the distribution of dividends with the same amount to its sole shareholder Cougar Holdings. Cougar Holdings’ shareholders then passed two resolutions for the distribution of dividends of RMB1,012,975,210 to its shareholders including Mr. Gao Lei, Mr. Shen Yingming, Wuhan Linuo Investment, Holdings Group Co., Ltd. (“Linuo Investment”), an entity controlled by Mr. Gao Yuankun, Wuhan Youji Employee Trust and Hubei Tuopu Organic and Phosphoric Chemicals Import & Export Co., Ltd.

Based on an agreement entered into by Cougar Holdings, Mr. Gao Lei, Mr. Shen Yingming, Linuo Investment, Linuo Group Holdings Co., Ltd. (“Linuo Group”), an entity controlled by Mr. Gao Yuankun, Wuhan Youji Employee Trust and Wuhan Youji on March 31, 2022, it was agreed that dividends of RMB820,026,606 declared by Cougar Holdings attributable to Mr. Gao Lei, Mr. Shen Yingming and Linuo Investment were used to offset the Group’s receivables due from Linuo Group and Linuo Investment.

On August 3, 2022, dividends of USD7,500 (equivalent to RMB50,860) were declared by the Company. Based on the distribution agreement, it was agreed that dividends of USD5,465, USD727, USD1,254, and USD54 were used to set-off the subscription price of the issuance of 75,000,000 ordinary shares (note 12) to Vastocean Capital Limited, Custodian Capital Ltd., SYM Holdings Limited and FullFaith Capital Limited, respectively.

On December 28, 2022, dividends of RMB89,807,559 were declared by a wholly-owned subsidiary, Centelligence Holdings Limited to the Company. On the same day, the directors of the Company passed a resolution for the distribution of dividends of RMB89,807,559 to its shareholders including Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., FullFaith Capital Limited, NovaVision Holdings I Ltd., NovaVision Holdings II Ltd. and NovaVision Holdings III Ltd. of RMB60,052,329, RMB15,013,082, RMB8,707,080, RMB646,614, RMB1,963,173, RMB1,963,840, and RMB1,461,441, respectively.

Based on an agreement entered into by Wuhan Youji Holdings Ltd, Mr. Gao Lei, Mr. Shen Yingming, Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Linuo Investment, Linuo Group and Wuhan Youji Industries Co., Ltd. on December 28, 2022, it was agreed that dividends of RMB65,886,529 declared by the Company attributable to Mr. Gao Lei and Mr. Shen Yingming were used to offset the Group’s receivables due from Linuo Group and Linuo Investment.

On December 31, 2023, dividends of RMB270,000,000 were declared by a wholly-owned subsidiary, Centelligence Holdings Limited to the Company. On the same day, the directors of the Company passed a resolution for the distribution of dividends of RMB270,000,000 to its shareholders including Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., FullFaith Capital Limited, NovaVision Holdings I Ltd, NovaVision Holdings II Ltd and NovaVision Holdings III Ltd of RMB180,543,031, RMB45,135,756, RMB26,177,213, RMB1,944,000, RMB5,902,139, RMB5,904,144, and RMB4,393,717, respectively.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for each of the Relevant Periods attributable to ordinary equity holders of the parent. On March 7, 2022, the Company carried out a 1-to-10,000 share subdivision whereby the authorized and issued number of ordinary shares of the Company became 500,000,000 with a par value of US\$0.0001. On the same day, after the repurchase and issuance of ordinary shares as disclosed in note 29, the issued number of ordinary shares of the Company became 75,000,000 with a par value of US\$0.0001. The weighted average number of ordinary shares was calculated based on the assumption that the share subdivision and consolidation on March 7, 2022 had been completed at the beginning of the Relevant Periods.

The Group had no potentially dilutive ordinary shares in issue during each of the Relevant Periods.

The calculations of basic and diluted earnings per share are based on:

	Year ended December 31,		
	2021	2022	2023
Earnings			
Profit attributable to ordinary equity holders of the parent (<i>RMB'000</i>)	309,137	340,470	72,902
Shares			
Weighted average number of ordinary shares in issue during the year in the basic and diluted earnings per share calculation	75,000,000	75,000,000	75,000,000
Earnings per share (basic and diluted), RMB per share	<u>4.12</u>	<u>4.54</u>	<u>0.97</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2021:						
Cost	354,405	724,222	7,345	4,622	70,662	1,161,256
Accumulated depreciation	(76,095)	(204,525)	(4,091)	(4,240)	–	(288,951)
Net carrying amount	<u>278,310</u>	<u>519,697</u>	<u>3,254</u>	<u>382</u>	<u>70,662</u>	<u>872,305</u>
At January 1, 2021, net of accumulated depreciation						
Additions	–	2,003	157	152	150,714	153,026
Depreciation provided during the year	(16,661)	(75,713)	(1,219)	(104)	–	(93,697)
Transfers	–	44,128	236	–	(44,364)	–
Disposals	–	(17,024)	(3)	(3)	–	(17,030)
At December 31, 2021, net of accumulated depreciation	<u>261,649</u>	<u>473,091</u>	<u>2,425</u>	<u>427</u>	<u>177,012</u>	<u>914,604</u>
At December 31, 2021:						
Cost	354,405	735,891	7,669	4,716	177,012	1,279,693
Accumulated depreciation	(92,756)	(262,800)	(5,244)	(4,289)	–	(365,089)
Net carrying amount	<u>261,649</u>	<u>473,091</u>	<u>2,425</u>	<u>427</u>	<u>177,012</u>	<u>914,604</u>

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	Buildings	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2022:						
Cost	354,405	735,891	7,669	4,716	177,012	1,279,693
Accumulated depreciation	(92,756)	(262,800)	(5,244)	(4,289)	–	(365,089)
Net carrying amount	<u>261,649</u>	<u>473,091</u>	<u>2,425</u>	<u>427</u>	<u>177,012</u>	<u>914,604</u>
At January 1, 2022, net of accumulated depreciation						
Additions	–	1,477	678	647	161,316	164,118
Depreciation provided during the year	(16,809)	(81,512)	(680)	(122)	–	(99,123)
Transfers	10,183	219,260	–	–	(229,443)	–
Disposals	–	(440)	–	(16)	–	(456)
At December 31, 2022, net of accumulated depreciation	<u>255,023</u>	<u>611,876</u>	<u>2,423</u>	<u>936</u>	<u>108,885</u>	<u>979,143</u>
At December 31, 2022:						
Cost	364,588	955,866	8,347	5,048	108,885	1,442,734
Accumulated depreciation	(109,565)	(343,990)	(5,924)	(4,112)	–	(463,591)
Net carrying amount	<u>255,023</u>	<u>611,876</u>	<u>2,423</u>	<u>936</u>	<u>108,885</u>	<u>979,143</u>
At January 1, 2023:						
Cost	364,588	955,866	8,347	5,048	108,885	1,442,734
Accumulated depreciation	(109,565)	(343,990)	(5,924)	(4,112)	–	(463,591)
Net carrying amount	<u>255,023</u>	<u>611,876</u>	<u>2,423</u>	<u>936</u>	<u>108,885</u>	<u>979,143</u>
At January 1, 2023, net of accumulated depreciation						
Additions	906	403	689	398	161,226	163,622
Depreciation provided during the year	(17,310)	(93,104)	(616)	(168)	–	(111,198)
Impairment*	–	–	–	–	(2,538)	(2,538)
Transfers	47,742	66,600	274	–	(114,616)	–
Disposals	–	–	–	(20)	(8,928)	(8,948)
At December 31, 2023, net of accumulated depreciation	<u>286,361</u>	<u>585,775</u>	<u>2,770</u>	<u>1,146</u>	<u>144,029</u>	<u>1,020,081</u>
At December 31, 2023:						
Cost	413,236	1,022,869	9,310	5,058	146,567	1,597,040
Accumulated depreciation and impairment	(126,875)	(437,094)	(6,540)	(3,912)	(2,538)	(576,959)
Net carrying amount	<u>286,361</u>	<u>585,775</u>	<u>2,770</u>	<u>1,146</u>	<u>144,029</u>	<u>1,020,081</u>

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At December 31, 2021, certain of the Group’s plant and machinery with a net carrying amount of approximately RMB240,435,000, respectively, were pledged to secure the Group’s bank loans (note 26).

At December 31, 2022 and 2023, certain of the Group’s buildings with an aggregate carrying amount of RMB139,731,000 and RMB130,554,000 were pledged to secure the Group’s bank loans and other borrowings (note 26).

* During the year ended December 31, 2023, the construction of the Group’s Wuhan production plant for hydrogenation production line was ceased due to geographical conditions. Certain assets of this hydrogenation production line at Wuhan could not be used anymore. Management of the Group assessed the recoverable amounts of the related idle assets, and a full impairment of RMB2,538,000 was made accordingly.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land use rights, buildings, toluene storage tanks and motor vehicles used in its operations. Lump sum payments were made upfront to acquire certain leased land from the owners with lease terms of 50 years, and no ongoing payments will be made under the terms of these land leases. The lease term of other lease land is 5 years with annual lease payment to be made during the lease term. Except for lease arrangements with Linuo Investment, a related entity as disclosed in note 36(e)(ii) to the Historical Financial Information, leases of buildings (including factories and warehouses) generally have lease terms between 2.6 and 5 years, while those of toluene storage tanks generally have lease terms between 3 and 7 years. Motor vehicles have lease terms between 3 and 5 years. Other equipment generally has lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Leasehold land	Buildings	Storage tanks	Motor vehicles	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at January 1, 2021	101,491	7,987	20,905	1,368	131,751
Additions	51,258	–	4,075	934	56,267
Depreciation charge	(2,840)	(1,807)	(4,440)	(656)	(9,743)
As at December 31, 2021 and January 1, 2022	149,909	6,180	20,540	1,646	178,275
Additions	12,563	19,941	–	–	32,504
Depreciation charge	(4,687)	(8,310)	(4,807)	(788)	(18,592)
As at December 31, 2022 and January 1, 2023	157,785	17,811	15,733	858	192,187
Additions	21,996	–	–	115	22,111
Depreciation charge	(5,932)	(8,525)	(4,749)	(603)	(19,809)
Lease modification	(3,962)	–	–	–	(3,962)
As at December 31, 2023	<u>169,887</u>	<u>9,286</u>	<u>10,984</u>	<u>370</u>	<u>190,527</u>

At December 31, 2021 and 2022 and 2023, certain of the Group’s leasehold land with a net carrying amount of approximately RMB94,570,000, RMB143,339,000 and RMB139,971,000, respectively, were pledged to secure the Group’s bank loans and other borrowings (note 26).

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(b) Lease liabilities

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Carrying amount at beginning of year	31,780	30,353	46,835
New leases	5,009	32,402	115
Accretion of interest recognized during the year	1,687	2,396	1,925
Payments	(8,123)	(18,316)	(17,242)
Lease modification	–	–	(4,043)
	<u>30,353</u>	<u>46,835</u>	<u>27,590</u>
Analyzed into:			
– Current portion	7,262	16,308	15,850
– Non-current portion	23,091	30,527	11,740
	<u>23,091</u>	<u>30,527</u>	<u>11,740</u>

The maturity analysis of lease liabilities is as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within one year	7,262	16,308	15,850
After one year but within two years	7,337	16,826	7,973
After two years but within five years	15,754	13,701	3,767
	<u>30,353</u>	<u>46,835</u>	<u>27,590</u>

(c) The amounts recognized in profit or loss in relation to leases are as follows:

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Interest on lease liabilities (<i>note 7</i>)	1,687	2,396	1,925
Depreciation charge of right-of-use assets (<i>note 6</i>)	9,743	18,592	19,809
Expenses relating to short-term leases	2,449	–	4
Gain on lease modification	–	–	(81)
Variable lease payments not included in the measurement of lease liabilities (included in cost of sales)	589	2,088	–
	<u>14,468</u>	<u>23,076</u>	<u>21,657</u>
Total amount recognized in profit or loss	<u>14,468</u>	<u>23,076</u>	<u>21,657</u>

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(d) Variable lease payments

The Group has lease contracts for toluene storage tanks that contains variable payments based on the storage capacity being leased every 6 months. The following provides information on the Group’s variable lease payments, including the magnitude in relation to fixed payments:

	Fixed payments	Variable payments	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Year ended December 31, 2021			
Fixed rent	5,412	–	5,412
Variable rent only	–	589	589
Year ended December 31, 2022			
Fixed rent	5,569	–	5,569
Variable rent only	–	2,088	2,088
Year ended December 31, 2023			
Fixed rent	5,569	–	5,569
Variable rent only	–	–	–

(e) The total cash outflow for leases and maturity profile of lease liabilities based on the contractual undiscounted payments are disclosed in notes 32(c) and 39, respectively, to the Historical Financial Information.

The Group as a lessor

The Group leases its owned storage tanks under operating lease arrangements for a period of 5 years since August 2020, which was renegotiated as a long term contract without a specific lease term in January 2022. Any early termination of the long-term contract requires a consensus from both the Group and the lessee. In addition, the Group leased a workshop for a period of one year from January 1 to December 31, with contract signed annually during the years ended December 31, 2021, 2022 and 2023. Rental income recognized by the Group during each of the Relevant Periods were RMB1,562,000, RMB1,774,000 and RMB1,774,000, respectively (note 5).

At the end of each of the Relevant Periods, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases, excluding the long-term contract without a specific lease term disclosed above, with its lessees are as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within one year	1,062	–	–
After one year but within two years	1,062	–	–
After two years but within three years	1,062	–	–
After three years but within four years	531	–	–
	<u>3,717</u>	<u>–</u>	<u>–</u>

At December 31, 2022 and 2023, the undiscounted lease payments receivable by the Group based on the long-term contract for the storage tanks without a specific lease term disclosed above are RMB1,321,000 in each coming year.

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15. OTHER INTANGIBLE ASSETS

	Patent and licenses	Software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at December 31, 2021			
Cost at January 1, 2021, net of accumulated amortization	2,543	2,885	5,428
Amortization provided during the year	(507)	(508)	(1,015)
At December 31, 2021	<u>2,036</u>	<u>2,377</u>	<u>4,413</u>
At December 31, 2021			
Cost	4,897	5,078	9,975
Accumulated amortization	(2,861)	(2,701)	(5,562)
Net carrying amount	<u>2,036</u>	<u>2,377</u>	<u>4,413</u>
As at December 31, 2022			
Cost at January 1, 2022, net of accumulated amortization	2,036	2,377	4,413
Additions-external purchase	123	–	123
Amortisation provided during the year	(479)	(484)	(963)
At December 31, 2022	<u>1,680</u>	<u>1,893</u>	<u>3,573</u>
At December 31, 2022			
Cost	5,020	5,078	10,098
Accumulated amortisation	(3,340)	(3,185)	(6,525)
Net carrying amount	<u>1,680</u>	<u>1,893</u>	<u>3,573</u>
As at December 31, 2023			
Cost at January 1, 2023, net of accumulated amortisation	1,680	1,893	3,573
Additions-external purchase	101	1,360	1,461
Amortisation provided during the year	(466)	(512)	(978)
At December 31, 2023	<u>1,315</u>	<u>2,741</u>	<u>4,056</u>
At December 31, 2023			
Cost	5,121	6,438	11,559
Accumulated amortisation	(3,806)	(3,697)	(7,503)
Net carrying amount	<u>1,315</u>	<u>2,741</u>	<u>4,056</u>

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16. INVESTMENT IN A JOINT VENTURE

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Share of net assets	30,997	23,502	11,668

Particulars of the Group’s joint venture is as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group			Principal activity
			As at December 31,			
			2021	2022	2023	
Hebei Kangshi New Materials Co., Ltd. (“Hebei Kangshi”) 河北康石新材料有限公司	Ordinary shares	The PRC/ Mainland China	51%	51%	51%	Manufacture and sale of industrial products

Hebei Kangshi, which is considered a material joint venture of the Group, acts as the Group’s manufacturer of industrial products in Mainland China and is accounted for using the equity method.

The following table illustrates the summarized financial information of Hebei Kangshi adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information:

	December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Current assets	71,372	29,553	41,406
Non-current assets	66,518	122,956	141,562
Current liabilities	12,036	47,467	137,290
Non-current liabilities	64,000	58,960	22,800
Net assets	61,854	46,082	22,878
Reconciliation to the Group’s interest in the joint venture:			
Proportion of the Group’s ownership	51%	51%	51%
Adjustments of unrealised profit arising from sales by the Group to the joint venture	(549)	–	–
Carrying amount of the investment	30,997	23,502	11,668
Revenue	57	1,902	231,766
Loss for the year	(11,785)	(15,772)	(23,204)

Hebei Kangshi was set up in January 2019 and the Group initially contributed RMB40,579,000 to the joint venture. During each of the Relevant Periods, the Group shared the loss of this joint venture amounting to RMB6,010,000, RMB8,044,000, and RMB11,834,000, respectively, before any adjustments of unrealised profit arising from sales by Hebei Kangshi to the Group.

Management assessed that there was no impairment indicator at the end of each of the Relevant Periods. Since Hebei Kangshi was in the startup stage where the construction of its factory was completed in January 2023, the financial performance was consistent with management’s expectations.

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17. INVESTMENTS IN ASSOCIATES

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Share of net assets	29,110	33,306	24,272
Less: Accumulated impairment	(3,455)	–	–
	<u>25,655</u>	<u>33,306</u>	<u>24,272</u>

The Group’s trade receivable balances due from the associates are disclosed in notes 20 and 36(d) to the Historical Financial Information respectively.

Particulars of the Group’s associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group			Principal activity
			As at December 31,			
			2021	2022	2023	
Wuhan Eastman Organic Chemical Co., Ltd. (“Wuhan Eastman”) 武漢伊士曼有機化工有限公司	Ordinary shares	PRC/ Mainland China	49%	49%	49%	Manufacture of industrial products
Tiantong Fine Chemicals (Nantong) Co., Ltd. (“Tiantong Fine Chemicals”) 天同精細化工(南通)有限公司	Ordinary shares	PRC/ Mainland China	25%	–	–	Manufacture of industrial products

Wuhan Eastman was set up in December 2010 and the Group initially contributed RMB5,553,000 to the associate. During each of the Relevant Periods, the Group shared profit of RMB8,450,000, RMB7,341,000, and RMB4,473,000, respectively. The investment in Wuhan Eastman is accounted for using the equity method.

Tiantong Fine Chemicals was set up in Nantong, Jiangsu province. The Group acquired its 25% interests for a consideration of RMB5,302,000 in January 2018, and it became an associate of the Group accordingly. As at December 31, 2019, the recoverable amount of the investment in Tiantong Fine Chemicals was determined to be nil based on its value in use due to the local government’s decision to close the chemical factory in the area where Tiantong Fine Chemicals locates. Tiantong Fine Chemicals ceased its operation in 2020 and had been in the process of liquidation since August 2020. An impairment loss on the investment in the associate of RMB3,455,000 was recognized during the year ended December 31, 2019, and a gain from liquidations of RMB4,501,000 was recognized during the year ended December 31, 2022, with the final liquidation of Tiantong Fine Chemicals in August 2022.

The Group has discontinued the recognition of its share of loss of Tiantong Fine Chemicals since January 1, 2020 because the share of loss of the associate exceeded the Group’s interest in the associate and the Group has no obligation to take up further losses. The amount of the Group’s unrecognised share of loss of this associate for the year ended December 31, 2021 was nil and the cumulative unrecognised share of losses was RMB2,254,000 as at December 31, 2021.

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The following table illustrates the summarized financial information of Wuhan Eastman, a material associate adjusted for any differences in accounting policies and reconciled to the carrying amount in the Historical Financial Information.

	December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Current assets	44,478	68,038	43,166
Non-current assets, excluding goodwill	12,330	11,689	10,686
Current liabilities	3,141	11,124	3,725
Non-current liabilities	293	248	240
Net assets	53,374	68,355	49,887
Reconciliation to the Group’s interest in the associate:			
Proportion of the Group’s ownership	49%	49%	49%
Adjustments of unrealized profit arising from sales by the Group to the associate	(498)	(188)	(173)
Carrying amount of the investment	25,655	33,306	24,272
Revenue	106,737	83,358	62,881
Profit for the year	17,245	14,981	9,128
Dividend declared by the associate to the Group	–	–	13,522

Tiantong Fine Chemicals	December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Share of the associate’s gain from liquidation	–	4,501	–
Carrying amount of the investment	–	–	–

18. INVESTMENT IN A SUBSIDIARY

The Company

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Investment cost	431,724	431,724	431,724

The amount represents the investment in the Company’s wholly-owned subsidiary, Centelligence Holdings Limited, which is stated at cost as at December 31, 2021 and 2022 and 2023, respectively.

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19. INVENTORIES

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Raw materials	141,361	135,250	109,820
Work in progress	11,148	13,827	13,269
Finished goods	153,112	171,404	164,008
	<u>305,621</u>	<u>320,481</u>	<u>287,097</u>
Impairment	–	–	(1,764)
	<u>305,621</u>	<u>320,481</u>	<u>285,333</u>

At December 31, 2021, certain of the Group’s inventories with a net carrying amount of approximately RMB31,944,000, were pledged to secure the Group’s bank loans (note 26), and no inventories were pledged as at December 31, 2022 and 2023.

20. TRADE AND BILLS RECEIVABLES

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade receivables	99,655	143,218	97,211
Bills receivable	135,201	184,573	199,727
	<u>234,856</u>	<u>327,791</u>	<u>296,938</u>
Impairment	(498)	(812)	(624)
	<u>234,358</u>	<u>326,979</u>	<u>296,314</u>

The Group’s trading terms with its customers are mainly paid in advance, except for some customers with good credit, where payment on credit is permitted. Generally, the credit period is one month and extending up to 120 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Bills receivable are measured at fair value through profit or loss. Bills receivable are bank acceptance bills that are unconditionally accepted by banks within the maturity period. Bills receivable are all aged within 12 months.

Included in the Group’s trade receivables are amounts due from associates of the Group of nil, RMB5,245,000 and RMB1,261,000 (netted of RMB6,000 impairment allowance) as at December 31, 2021, 2022 and 2023, respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

Details of trade receivable balances due from other related parties are disclosed in note 36(d) to the Historical Financial Information.

Transferred financial assets that are not derecognized in their entirety

At December 31, 2021, 2022 and 2023, the Group endorsed certain bills receivable accepted by banks (the “Bank Bills”) in Mainland China (the “Endorsed Bills”) with a carrying amount of RMB133,293,000, RMB159,147,000 and RMB161,271,000, respectively, to certain of its suppliers in order to settle the trade and other payables due to such suppliers (the “Endorsement”).

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The Group also transferred certain Bank Bills in Mainland China (the “Discounted Bills”) with a carrying amount of nil, RMB300,000 and nil to certain banks in order to obtain cash from such banks (the “Discounted Bills”) as at December 31, 2021, 2022 and 2023, respectively (note 26(d)).

In the opinion of the Company’s directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills and Discounted Bills, and accordingly, the Group continued to recognize (i) the full carrying amounts of the Endorsed Bills and the relevant associated trade and other payables settled and (ii) the full carrying amounts of the Discounted Bills and the associated other borrowings associated with cash received. Subsequent to the Endorsement or Discount, the Group did not retain any rights on the use of the Endorsed or Discounted Bills, including the sale, transfer or pledge of the Endorsed and Discounted Bills to any other third parties.

At December 31, 2021, 2022 and 2023, the aggregated carrying amount of the trade payables and other payables settled by the Endorsed Bills to which the suppliers have recourse are RMB66,068,000, RMB94,795,000 and RMB96,457,000, respectively, and RMB67,225,000, RMB64,352,000 and RMB64,814,000, respectively.

At December 31, 2021, 2022 and 2023, the aggregated carrying amount of the other borrowings are nil, RMB15,300,000 and nil, respectively.

Transferred financial assets that are derecognized in their entirety

At December 31, 2021, 2022 and 2023, the Group endorsed certain Bank Bills in Mainland China with a carrying amount of RMB233,631,000, RMB270,250,000 and RMB149,474,000 respectively, to certain of its suppliers in order to settle the trade payables due to such suppliers. At December 31, 2021, 2022 and 2023, the Group also transferred certain Bank Bills in Mainland China with a carrying amount of RMB7,594,000, RMB38,433,000 and RMB9,646,000, respectively, to certain banks in order to obtain cash from such banks. These bills receivables being endorsed and transferred are collectively referred to derecognized bills (the “Derecognized Bills”).

The Derecognized Bills had a maturity of one to twelve months at the end of each of the Relevant Periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognized Bills may exercise the right of recourse against any, several or all of the persons liable for the Derecognized Bills, including the Group, in disregard of the order of precedence (the “Continuing Involvement”). In the opinion of the Company’s directors, the risk of the Group being claimed by the holders of the Derecognized Bills is remote in the absence of a default of the accepted banks. The Group has transferred substantially all risks and rewards relating to the Derecognized Bills. Accordingly, it has derecognized the full carrying amounts of the Derecognized Bills and the associated trade payables and other borrowings. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognized Bills and the undiscounted cash flows to repurchase these Derecognized Bills is equal to their carrying amounts. In the opinion of the Company’s directors, the fair values of the Group’s Continuing Involvement in the Derecognized Bills are not significant.

During each of the Relevant Periods, the Group has not recognized any gain or loss on the date of transfer of the Derecognized Bills. No gains or losses were recognized from the Continuing Involvement during each of the Relevant Periods. The endorsement and transfer have been made evenly throughout the Relevant Periods.

An aging analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
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
	<u>99,157</u>	<u>142,406</u>	<u>96,587</u>

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The maturity date analysis for bills receivable is as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
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	–
	<u>135,201</u>	<u>184,573</u>	<u>199,727</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At beginning of year	314	498	812
Impairment losses	184	314	(188)
At end of year	<u>498</u>	<u>812</u>	<u>624</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity. Given there were no significant changes in the historical and forecasts of future conditions, the expected loss rates for trade receivables remained substantially the same throughout the Relevant Periods.

Set out below is the information about the credit risk exposure on the Group’s trade receivables using a provision matrix:

As at December 31, 2021

	Current	Past due		Total
		Less than 3 months	3 to 6 months	
				<i>RMB’000</i>
Expected credit loss rate	0.4%	1.0%	3.0%	
Gross carrying amount	94,399	4,183	1,073	99,655
Expected credit losses	424	42	32	498

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As at December 31, 2022

	<u>Current</u>	<u>Past due</u>		<u>Total</u>
		<u>Less than 3 months</u>	<u>3 to 6 months</u>	
				<i>RMB’000</i>
Expected credit loss rate	0.5%	1.0%	3.0%	
Gross carrying amount	130,974	10,544	1,700	143,218
Expected credit losses	656	105	51	812

As at December 31, 2023

	<u>Current</u>	<u>Past due</u>		<u>Total</u>
		<u>Less than 3 months</u>	<u>3 to 6 months</u>	
				<i>RMB’000</i>
Expected credit loss rate	0.5%	1.0%	3.0%	
Gross carrying amount	83,667	12,573	971	97,211
Expected credit losses	452	143	29	624

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	<u>As at December 31,</u>		
	<u>2021</u>	<u>2022</u>	<u>2023</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Non-current:			
Prepayments for property, plant and equipment and leasehold land	28,630	60,740	32,704
Current:			
Loans to directors (<i>note 22</i>)	689	549	349
Amounts due from other related parties (<i>note 36(d)</i>)	1,008,171	13,255	59,414
Deposits and other receivables	10,640	9,293	13,644
Prepayments	62,118	27,701	29,311
Deductible input VAT	13,234	12,811	31,711
Prepaid income tax	–	5,692	438
Investment in a fund*	–	–	10,500
	<u>1,094,852</u>	<u>69,301</u>	<u>145,367</u>

* The fund was set up in July 2023 in Mainland China, and the Group’s investment in the fund was measured at fair value through profit or loss. Pursuant to a resolution of the fund’s investors in December 2023, the fund was being cancelled as at December 31, 2023. The Group received the investment proceeds in January 2024 and the fund was then liquidated in February 2024.

None of the above financial assets is either past due or impaired. The other financial assets included in the above balances relate to receivables for which there was no recent history of default. As at the end of each of the Relevant Periods, the loss allowance was assessed to be minimal as the loss given default are minimal.

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The Company

	As at December 31,		
	2021	2022	2023
	RMB’000	RMB’000	RMB’000
Current:			
Due from a subsidiary (<i>note</i>)	–	113,170	127,077
Deposits and other receivables	2,614	6,193	9,555
Prepayments	796	2,873	354
	<u>3,410</u>	<u>122,236</u>	<u>136,986</u>

None of the financial assets included above is either past due or impaired. As at the end of each of the Relevant Periods, the loss allowance was assessed to be minimal as the loss given default are minimal.

Note: As disclosed in note 11, Centelligence Holdings Limited, a wholly-owned subsidiary declared dividends of RMB1,048,975,210 on February 28, 2022, RMB89,807,559 on December 28, 2022 and RMB270,000,000 on December 31, 2023 to the Company, respectively. As of December 31, 2023, RMB1,281,705,833 of declared dividends has been settled, while the remaining unsettled balance of RMB127,076,936 was recorded as other payable. As certain shareholders of the Wuhan Youji Employee Trust could not be contacted by December 31, 2023, the Group was unable to settle the dividend payable to these shareholders and therefore, the subsidiary has not yet settled the dividend payable to the Company.

The outstanding dividends receivable are non-interest bearing.

22. LOANS TO DIRECTORS

Name	At	Maximum	At
	January 1,	amount	December 31,
	2021	outstanding in	2021
	RMB’000	RMB’000	RMB’000
Mr. Zou Xiaohong	589	589	549
Mr. Gao Lei	–	108	108
Mr. Shen Yingming	–	32	32
	<u>589</u>		<u>689</u>

Name	At	Maximum	At	Maximum	At
	January 1,	amount	December 31,	amount	December 31,
	2022	outstanding in	2022	outstanding in	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Mr. Zou Xiaohong	549	549	549	549	349
Mr. Gao Lei	108	108	–	–	–
Mr. Shen Yingming	32	32	–	–	–
	<u>689</u>		<u>549</u>		<u>349</u>

The loans granted to directors are unsecured, non-interest-bearing and repayable on demand.

The loans granted to directors are non-trade in nature and will be settled prior to the [REDACTED].

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23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

The Group

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cash and bank balances	118,965	148,126	105,560
Less: Pledged time deposits:			
Pledged for bills payable	(39,433)	(10,000)	–
Pledged for letter of credit	(10,071)	(50,174)	(40,127)
Others	–	(4,501)	–
	<u>(49,504)</u>	<u>(64,675)</u>	<u>(40,127)</u>
Cash and cash equivalents	<u>69,461</u>	<u>83,451</u>	<u>65,433</u>
Cash and bank balances denominated in:			
RMB	90,679	105,125	84,151
EUR	617	762	425
USD	27,669	42,239	20,984

The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables	125,250	161,228	149,705
Bills payable	71,000	10,000	–
	<u>196,250</u>	<u>171,228</u>	<u>149,705</u>

An aging analysis of the trade payables as at the end of the reporting period, based on the posting date, is as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within 1 year	123,829	156,772	149,444
1 year to 2 years	668	4,170	152
Over 2 years	753	286	109
	<u>125,250</u>	<u>161,228</u>	<u>149,705</u>

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The maturity date analysis for bills payable is as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within 3 months	–	10,000	–
3 months to 6 months	25,000	–	–
6 months to 12 months	46,000	–	–
	<u>71,000</u>	<u>10,000</u>	<u>–</u>

Trade payables are non-interest-bearing and are normally settled within 90-day terms.

25. OTHER PAYABLES AND ACCRUALS

The Group

	<i>Notes</i>	As at December 31,		
		2021	2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Deferred output VAT		7,110	6,235	6,049
Contract liabilities	<i>(a)</i>	64,322	42,919	50,596
Other payables and accruals	<i>(b)</i>	159,880	159,248	160,878
Amounts due to related parties	<i>36(d)</i>	2,213	6,614	5,825
Dividend payable		–	113,170	127,077
Accrued wages and salaries		24,704	27,022	19,990
Other tax payable		4,944	6,878	2,556
		<u>263,173</u>	<u>362,086</u>	<u>372,971</u>

(a) Details of contract liabilities are as follows:

	As at	As at December 31,		
	January 1,	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Short-term advances received from customers*	44,977	64,322	42,919	50,596

* Contract liabilities include short-term advances received to deliver industrial products. The fluctuation in contract liabilities at December 31, 2021, 2022 and 2023 was due to the changes of short-term advances received from customers based on their demand at the end of each of the Relevant Periods.

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(b) Other payables are unsecured and non-interest-bearing. Details of other payables are as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
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
	<u>159,880</u>	<u>159,248</u>	<u>160,878</u>

The Company

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Current:			
Dividend payable***	–	113,170	127,077
Amounts due to subsidiaries**	11,250	31,401	42,364
Others	–	–	15
	<u>11,250</u>	<u>144,571</u>	<u>169,456</u>

** The subsidiaries are Wuhan Youji Industry Co., Ltd and Wuhan International Holding II Limited. The above payables are non-trade in nature, unsecured, non-interest-bearing and repayable on demand.

*** The balance as at December 31, 2023 mainly represents payable to shareholders previously under the Wuhan Youji Employee Trust whom could not be contacted.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at December 31, 2021		
	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB’000</i>
	Current		
Bank loans – secured	2-9	2022	581,527
Other borrowings – unsecured	2-12	2022	134,580
			<u>716,107</u>

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	As at December 31, 2022			As at December 31, 2023		
	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB’000</i>	<i>Effective interest rate (%)</i>	<i>Maturity</i>	<i>RMB’000</i>
Current						
Bank loans – secured	4-5	2023	200,000	4-5	2024	268,020
Bank loans – unsecured	4-5	2023	345,000	3-5	2024	514,000
Current portion of long-term bank loans – secured	5	2023	10,000	5	2024	12,000
Current portion of long-term bank loans – unsecured	4	2023	2,000	4	2024	18,000
Other borrowings – secured		2023	50,000			–
Other borrowings – unsecured		2023	55,300		2024	40,000
			<u>662,300</u>			<u>852,020</u>
Non Current						
Bank loans – unsecured	4	2023-2024	18,000	4	2025	23,500
Bank loans – secured	5	2023-2025	54,000	5	2025	42,000
			<u>72,000</u>			<u>65,500</u>
			<u>734,300</u>			<u>917,520</u>
As at December 31						
			<u>2021</u>	<u>2022</u>	<u>2023</u>	
			<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Analysed into:						
Bank loans repayable:						
Within one year			581,527	557,000	812,020	
After one year but within two years			–	30,000	65,500	
After two years but within five years			–	42,000	–	
			<u>581,527</u>	<u>629,000</u>	<u>877,520</u>	
Other borrowings repayable:						
Within one year			134,580	105,300	40,000	
			<u>716,107</u>	<u>734,300</u>	<u>917,520</u>	

Notes:

- (a) Bank loans and other borrowings of the Group are secured by:
- (i) mortgages over the Group’s plant, equipment and buildings situated in Mainland China, which had an aggregate carrying amount as at December 31, 2021, 2022 and 2023 of RMB240,435,000, RMB139,731,000 and RMB130,554,000 respectively (note 13);

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- (ii) mortgages over the Group’s leasehold lands situated in Mainland China, which had an aggregate carrying amount as at December 31, 2021, 2022 and 2023 of RMB94,570,000, RMB143,339,000 and RMB139,971,000 respectively (note 14);
- (iii) mortgages over the Group’s inventories situated in Mainland China, which had an aggregate carrying amount as at December 31, 2021 of RMB31,944,000 (note 19);

In addition to the mortgages mentioned above, bank loans of RMB556,554,000 as at December 31, 2021, were guaranteed by certain entities controlled by a close family member of Mr. Gao Lei, a director of the Company and substantial shareholder of the Company’s parent (note 36). These guarantees provided by related parties have been subsequently released after August 19, 2022.

- (b) All bank loans and other borrowings of the Group are denominated in RMB and at fixed interest rates except for an unsecured bank loan with the amount of RMB23,500,000 as at December 31, 2023 is at floating interest rate.
- (c) Certain other borrowings with carrying amounts of RMB20,000,000, nil and nil as at December 31, 2021, 2022 and 2023, respectively, are borrowed from related parties (note 36(d)).
- (d) Certain other borrowings are associated with the discounted bills but not derecognized, with carrying amounts of nil, RMB300,000 and nil as at December 31, 2021, 2022 and 2023, respectively (note 20).
- (e) Certain other borrowings with carrying amounts of RMB25,000,000 as at December 31, 2021, were guaranteed by Linuo Group, a related party (note 36(c)(vii)).

27. GOVERNMENT GRANTS

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Government grants*	39,950	49,026	45,740

The movements in government grants during the Relevant Periods are as follows:

	Total
	<i>RMB’000</i>
At January 1, 2021	36,750
Received during the year	6,430
Released to profit or loss	(3,230)
At December 31, 2021 and January 1, 2022	39,950
Received during the year	13,646
Released to profit or loss	(4,570)
At December 31, 2022 and January 1, 2023	49,026
Received during the year	2,067
Released to profit or loss	(5,353)
At December 31, 2023	45,740

* The Group received government grants for capital expenditure incurred for the purchase of plant and equipment. The amounts are deferred and amortized over the estimated useful lives of the respective assets.

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28. DEFERRED TAX

The movements in deferred tax liabilities and assets during each of the Relevant Periods are as follows:

Deferred tax liabilities

	Depreciation difference for tax purpose	Right of use assets	Withholding tax on undistributed profits of subsidiaries in Mainland China	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2021	25,044	4,539	74,053	103,636
Deferred tax charged/(credited) to profit or loss during the year (<i>note 10</i>)	2,594	(284)	34,396	36,706
Gross deferred tax liabilities at December 31, 2021	27,638	4,255	108,449	140,342
Deferred tax charged/(credited) to profit or loss during the year (<i>note 10</i>)	17,207	2,587	(78,023)	(58,229)
Gross deferred tax liabilities at December 31, 2022	44,845	6,842	30,426	82,113
Deferred tax charged/(credited) to profit or loss during the year (<i>note 10</i>)	4,132	(2,960)	(20,721)	(19,549)
Gross deferred tax liabilities at December 31, 2023	<u>48,977</u>	<u>3,882</u>	<u>9,705</u>	<u>62,564</u>

Deferred tax assets

	Government grants	Impairment losses	Lease liability	Unpaid payroll	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1, 2021	5,513	203	4,735	3,231	1,909	15,591
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	(411)	(203)	(209)	475	391	43
Gross deferred tax assets at December 31, 2021	5,102	–	4,526	3,706	2,300	15,634
Deferred tax credited to profit or loss during the year (<i>note 10</i>)	2,252	–	2,499	346	392	5,489
Gross deferred tax assets at December 31, 2022	7,354	–	7,025	4,052	2,692	21,123
Deferred tax credited/(charged) to profit or loss during the year (<i>note 10</i>)	(493)	–	(2,887)	(1,053)	5,243	810
Gross deferred tax assets at December 31, 2023	<u>6,861</u>	<u>–</u>	<u>4,138</u>	<u>2,999</u>	<u>7,935</u>	<u>21,933</u>

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The Group had accumulated tax losses arising in Mainland China of RMB4,207,000 as at December 31, 2023, which are available for offsetting against future taxable profits in ten years.

For presentation purposes, deferred tax assets and liabilities have been offset in the consolidated statements of financial position as follows:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net deferred tax liabilities recognized in the consolidated statements of financial position	<u>(124,708)</u>	<u>(60,990)</u>	<u>(40,631)</u>

29. SHARE CAPITAL

The Company was incorporated on September 23, 2016 with an authorized share capital of US\$50,000 divided into 50,000 ordinary shares with a par value of US\$1.00 each.

On March 7, 2022, the Company carried out a 1 to 10,000 share subdivision whereby the authorized and issued number of ordinary shares of the Company became 500,000,000 with a par value of US\$0.0001. The authorized and issued share capital remained unchanged at US\$50,000.

On the same day, the Company entered into a subscription, repurchase and transfer agreement whereby:

- (i) the Company repurchased the entire 500,000,000 ordinary shares from Cougar International at a consideration of US\$5,200,000, which was subsequently settled in September 2022; and
- (ii) the Company issued ordinary shares of 75,000,000 with par value of US\$0.0001 each at par, the consideration of which was subsequently settled in August 2022.

The authorised number of ordinary shares of the Company keeps unchanged and is 500,000,000 with a par value of US\$0.0001.

A summary of movements in the Company’s issued share capital is as follows:

	Number of shares in issue	Share capital
		<i>RMB’000</i>
At January 1, 2021 and December 31, 2021	50,000	339
Share subdivision with an adjusted par value of US\$0.0001	499,950,000	–
Shares repurchased	(500,000,000)	(339)
Issue of new ordinary shares	<u>75,000,000</u>	<u>48</u>
At December 31, 2022 and 2023	<u>75,000,000</u>	<u>48</u>

30. SHARE AWARD SCHEME

On January 18, 2021, Wuhan Linuo Investment Holdings Group Co., Ltd. (“Linuo Investment”) and Cougar Holdings approved a share award scheme (the “Scheme”) of Wuhan Youji, pursuant to which Linuo Investment (a substantial shareholder of Cougar Holdings) agreed to grant share awards representing an aggregate of 600 shares in Cougar Holdings (the “Awarded Shares”) to 104 eligible employees of the Group, including the senior and middle management of Wuhan Youji at the time. The purpose of the scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

The agreed and approved award price was RMB48,511.31 per share with a total award consideration of RMB29,106,786. The underlying Awarded Shares had been transferred by Linuo Investment to the eligible employees when a share transfer agreement was signed with Linuo Investment. Meanwhile, as the registration procedures of the employees ruling by relevant regulation had not been completed when the Awarded Shares were granted, such shares remained to be held by Linuo Investment according to the share transfer agreement. The award

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considerations were fully paid by the eligible employees to Linuo Investment in November 2021. Pursuant to the Scheme, the eligible employees of the Awarded Shares are required to provide services to the Group for five years starting from January 18, 2021.

The fair value of the Awarded Shares under the Scheme as at the date of grant was determined based on the discounted cash flow method by an independent professional valuer.

Based on the valuation, the fair value of each Awarded Share is determined at RMB52,007.93 and the total fair value of the Awarded Shares is amounted to RMB31,204,755. Hence, the total share-based payment expenses of the Scheme are RMB2,097,969. Set out below is a summary of the Scheme:

Date of grant	Fair value at the date of grant	Award price paid by employees	Total share-based payment expenses
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
January 18, 2021	31,205	29,107	2,098
	<u>31,205</u>	<u>29,107</u>	<u>2,098</u>

Total share-based payment expenses	Amortisation to profit or loss in 2021	Deferred expenses as at December 31, 2021	Amortisation to profit or loss in 2022	Deferred expenses as at December 31, 2022	Amortisation to profit or loss in 2023	Deferred expenses as at December 31, 2023
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2,098	419	1,679	419	1,260	419	841
<u>2,098</u>	<u>419</u>	<u>1,679</u>	<u>419</u>	<u>1,260</u>	<u>419</u>	<u>841</u>

During the corporate reorganisation undergone by the Group in preparation of the initial [REDACTED] for the shares of the Company on the Stock Exchange (“[REDACTED]”) in March 2022, the Awarded Shares were replaced by 4,500,000 ordinary shares newly issued (which were included in the new issuance of 75,000,000 ordinary shares as described in note 29(ii)) by the Company and the effective interest in the Group under the Scheme remained the same at 6%. According to the Scheme, Mr. Shen Yingming will purchase the shares of the Company from the eligible employees if they leave the Group within 5 years from January 18, 2021 at a price which equals to the award price paid by the respective eligible employees plus an interest (based on bank deposit interest rate) for the period commencing from the date the employee paid the award price.

31. RESERVES

The Group

The amounts of the Group’s reserves and the movements therein during each of the Relevant Periods are presented in the consolidated statements of changes in equity on pages [I-7] to [I-9] of the Historical Financial Information.

(i) Merger reserve

The merger reserve of the Group represents the difference between the par value of the Company’s shares issued in exchange for the shares of the then holding company and the carrying amount of the issued share capital and capital contribution of the then holding company of the Group.

(ii) Statutory reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserve reach 50% of their respective registered capital.

(iii) Capital reserve

Capital reserve represents the difference between the consideration of US\$5,200,000 for the repurchase of Company’s shares and the carrying amount of the Company’s share capital of US\$50,000, according to the subscription, repurchase and transfer agreement entered into as at March 7, 2022.

(iv) Other reserves

Other reserves represent equity-settled share award arrangements (note 30).

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The Company

The Company’s capital reserve includes: (i) the difference between the par value of the Company’s shares issued and the cost of investment in a subsidiary; and (ii) the difference between the consideration for the repurchase of Company’s shares and the carrying amount of the Company’s share capital on March 7, 2022.

The movements of the Company’s reserves are as follows:

	Retained earnings/ (accumulated losses)	Capital reserve	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at January 1, 2021	–	431,385	431,385
Loss and total comprehensive loss for the year	(7,840)	–	(7,840)
As at December 31, 2021	(7,840)	431,385	423,545
Repurchase of shares	–	(32,670)	(32,670)
Profit and total comprehensive income for the year	1,121,581	–	1,121,581
Dividend distribution	(1,102,832)	–	(1,102,832)
As at December 31, 2022	10,909	398,715	409,624
Profit and total comprehensive income for the year	259,849	–	259,849
Dividend distribution	(270,000)	–	(270,000)
As at December 31, 2023	758	398,715	399,473

32. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

- (i) During the years ended December 31, 2021, 2022 and 2023, the Group had non-cash additions of right-of-use assets of RMB5,009,000, RMB32,402,000 and RMB115,000, and non-cash additions of lease liabilities of RMB5,009,000, RMB32,402,000, and RMB115,000, respectively, in respect of the Group’s lease arrangements.
- (ii) During the years ended December 31, 2021, 2022 and 2023, the Group endorsed bills receivable of RMB108,486,000, RMB104,156,000 and RMB114,652,000, respectively, to settle the payables for purchase of property, plant and equipment.
- (iii) During the year ended December 31, 2021, the Group endorsed bills receivable of RMB50,765,000 and RMB12,177,000, respectively, to related parties, Linuo Group and Wuhan Linuo Investment Holdings Group Co., Ltd. for funding purpose.
- (iv) Based on an agreement entered into by Cougar Holdings, Mr. Gao Lei, Mr. Shen Yingming, Linuo Investment, Linuo Group, Wuhan Youji Employee Trust and Wuhan Youji on March 31, 2022, it was agreed that dividends of RMB820,026,606 that belongs to Mr. Gao Lei, Mr. Shen Yingming and Linuo Investment were used to offset the Group’s receivables due from Linuo Group and Linuo Investment (note 11).

Based on the distribution agreement dated August 3, 2022, it was agreed that dividends of USD5,465, USD727, USD1,254, and USD54 were used to set-off the subscription price of the issuance of 75,000,000 ordinary shares (note 12) to Vastocean Capital Limited, Custodian Capital Ltd., SYM Holdings Limited and FullFaith Capital Limited, respectively (note 11).

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Based on an agreement entered into by Wuhan Youji Holdings Ltd, Mr. Gao Lei, Mr. Shen Yingming, Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Linuo Investment, Linuo Group and Wuhan Youji Industries Co., Ltd. on December 28, 2022, it was agreed that dividends of RMB65,886,529 that belongs to Mr. Gao Lei and Mr. Shen Yingming were used to offset the Group’s receivables due from Linuo Group and Linuo Investment (note 11).

- (v) Based on an agreement entered into by Hebei Kangshi and Wuhan Youji Industries Co., Ltd. on December 31, 2023, it was agreed that loans of RMB13,394,417 that Hebei Kangshi borrowed from Wuhan Youji Industries Co., Ltd. were used to offset the Group’s payables due to Hebei Kangshi.
- (vi) During the year ended 31 December 2023, Hebei Kangshi received prepayment of RMB7,172,869 from its customers, while Wuhan Youji fulfilled the contracts obligations by delivering goods to those customers on behalf of Hebei Kangshi. Since Hebei Kangshi should settle the payment of RMB7,172,869 to Wuhan Youji, Hebei Kangshi and Wuhan Youji entered into an agreement in September 2023, where both parties agreed that the amount due from Hebei Kangshi was repayable within one year and carried interest at 4.8% per annum.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings	Pledged deposits	Interest payable	Lease liabilities	Total
	<i>RMB'000</i> <i>(note 26)</i>	<i>RMB'000</i> <i>(note 23)</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(note 14(b))</i>	<i>RMB'000</i>
At January 1, 2021	558,343	(73,971)	–	31,780	516,152
Changes from financing cash flow	157,764	24,467	(32,379)	(8,123)	141,729
New leases	–	–	–	5,009	5,009
Interest expenses	–	–	32,379	1,687	34,066
At December 31, 2021 and January 1, 2022	716,107	(49,504)	–	30,353	696,956
Changes from financing cash flow	18,193	(15,171)	(28,630)	(18,316)	43,924
New leases	–	–	–	32,402	32,402
Interest expenses	–	–	28,630	2,396	31,026
At December 31, 2022 and January 1, 2023	734,300	(64,675)	–	46,835	716,460
Changes from financing cash flow	183,220	24,548	(30,356)	(17,242)	160,170
New leases	–	–	–	115	115
Lease modification	–	–	–	(4,043)	(4,043)
Interest expenses	–	–	30,356	1,925	32,281
At December 31, 2023	917,520	(40,127)	–	27,590	904,983

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(c) The total cash outflows for leases included in the statements of cash flows are as follows:

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Within operating activities	3,038	2,088	4
Within investing activities	51,258	21,452	646
Within financing activities	8,123	18,316	17,242
	<u>62,419</u>	<u>41,856</u>	<u>17,892</u>

33. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Group had no significant contingent liabilities.

34. PLEDGE OF ASSETS

Details of the Group’s assets pledged for the Group’s bank loans are included in notes 13, 14, 19, 20 and 23, respectively, to the Historical Financial Information.

35. COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Contracted, but not provided for:			
Plant and machinery	17,730	60,623	42,700

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed in note 11, note 17, note 25 and note 32(a) to the Historical Financial Information, the Group had the following transactions and balances with related parties during the Relevant Periods.

(a) Name and relationship

Name of related parties	Relationship with the Group
Mr. Gao Lei	Non-executive director and single largest shareholder of the Company’s parent
Mr. Gao Yuankun	Father of Mr. Gao Lei
Ms. Chen Lianna	Mother of Mr. Gao Lei
Mr. Shen Yingming	Non-executive director
Mr. Zou Xiaohong	Executive director
Vastocean Capital Limited	Immediate and ultimate parent of the Company, controlled by Mr. Gao Lei (since March 2022)

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Name of related parties	Relationship with the Group
Custodian Capital Ltd.	Entity controlled by Mr. Gao Lei (since March 2022)
SYM Holdings Limited	Entity controlled by Mr. Shen Yingming (since March 2022)
Full Faith Capital Limited	A shareholder of the Company (since March 2022)
Cougar Holdings	Sole shareholder of the Company’s parent (up to March 2022)
Cougar International	Sole shareholder of the Company (up to March 2022)
力諾集團股份有限公司 Linuo Group	Entity controlled by Mr. Gao Yuankun
武漢力諾投資控股集團有限公司 Linuo Investment	Entity controlled by Mr. Gao Yuankun
武漢新康化工設備有限公司 Wuhan Xinkang Chemical Equipment Co., Ltd. (“Xinkang Chemical”)	Entity controlled by Mr. Gao Lei
Tiantong Fine Chemicals	Associate
Wuhan Eastman	Associate
Hebei Kangshi	Joint venture
山東宏濟堂製藥集團股份有限公司 Shandong Hongjitang Pharmaceutical Group Co., Ltd. (“Shandong Hongjitang”)	Entity controlled by Mr. Gao Yuankun
山東科源製藥股份有限公司 Shandong Keyuan Pharmaceutical Co., Ltd. (“Shandong Keyuan”)	Entity controlled by Mr. Gao Yuankun
武漢雙虎塗料股份有限公司 Wuhan Twin Tigers Coatings Co., Ltd. (“Twin Tigers Coatings”)	Entity controlled by Mr. Gao Yuankun
武漢力諾智慧園科技管理有限公司 Wuhan Linuo Wisdom Park Technology Management Co., Ltd. (“Linuo Wisdom Park Technology”)	Entity controlled by Mr. Gao Yuankun
山東城安實業有限公司 Shandong Chengan Industrial Co., Ltd. (“Shandong Chengan”)	Entity controlled by Mr. Gao Yuankun
應城市武瀚有機材料有限公司 Yingcheng Wuhan Organic Material Co., Ltd. (“Yingcheng Wuhan Organic”)	Mr. Zou Xiaohong is the corporate representative and minority shareholder of the entity
山東力諾製藥有限公司 Shandong Linuo Pharmaceutical Co., Ltd. (“Shandong Linuo Pharmaceutical”)	Entity controlled by Mr. Gao Yuankun

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Name of related parties	Relationship with the Group
海南力諾新能源開發有限公司 Hainan Linuo New Energy Development Co., Ltd. (“Hainan Linuo”)	Entity controlled by Mr. Gao Yuankun
山東力諾光伏高科技有限公司 Shandong Linuo Photovoltaic Hi-tech Co., Ltd. (“Shandong Linuo Photovoltaic”)	Entity controlled by Mr. Gao Yuankun
單縣鑫諾光電科技有限公司 Shanxian Xinnuo Photoelectric Technology Co., Ltd. (“Shanxian Xinnuo Photoelectric”)	Entity controlled by Mr. Gao Yuankun
湖北拓樸有機磷化進出口有限公司 Hubei Tuopu Organic and Phosphoric Chemicals Import & Export Co., Ltd. (“Hubei Tuopu”)	A non-controlling shareholder of the Cougar Holdings
山東宏濟堂健康產業有限公司 Shandong Hongjitang Health Industry Co., Ltd. (“Shandong Hongjitang Health”)	Entity controlled by Mr. Gao Yuankun
山東力諾進出口貿易有限公司 Shandong Linuo Import and Export Trading Co., Ltd. (“Shandong Linuo Import and Export”)	Entity controlled by Mr. Gao Yuankun

(b) Significant related party transactions

The Group had the following material related party transactions during each of the Relevant Periods:

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Purchases of goods or services			
Linuo Investment (i)	5,780	17,713	21,190
Linuo Wisdom Park Technology (ii)	2,324	825	77
Twin Tigers Coatings (iii)	4,733	2,215	2,054
Shandong Hongjitang Health (iv)	1,115	556	8
Shandong Linuo Photovoltaic	50	–	–
Hebei Kangshi (iv)	–	–	151,222
	14,002	21,309	174,551
Purchases of machinery			
Xinkang Chemical (v)	33,176	40,408	25,660

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	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Sales of goods			
Hubei Tuopu (vi)	24,325	4,689	7,637
Twin Tigers Coatings (vi)	15,694	194	–
Yingcheng Wuhan Organic (vi)	3,297	5,764	1,158
Shandong Keyuan	539	–	–
Hebei Kangshi	–	2,294	28
Linuo Wisdom Park Technology	150	401	426
Shandong Linuo Import and Export	38	–	–
Linuo Investment	19	–	–
Shandong Hongjitang	15	–	–
	<u>44,077</u>	<u>13,342</u>	<u>9,249</u>
Wuhan Eastman (vi)	30,633	29,022	25,749
Tiantong Fine Chemicals (vi)	564	–	–
	<u>31,197</u>	<u>29,022</u>	<u>25,749</u>
	<u><u>75,274</u></u>	<u><u>42,364</u></u>	<u><u>34,998</u></u>
Render of services			
Xinkang Chemical (vi)	4,796	2,491	1,084
Twin Tigers Coatings (vi)	2,695	2,650	2,506
	<u>7,491</u>	<u>5,141</u>	<u>3,590</u>
Disposal of machinery and equipment			
Xinkang Chemical (x)	<u>1,590</u>	<u>124</u>	<u>8,928</u>
	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Loans to			
Linuo Group (vii)	259,791	3,140	–
Linuo Investment (vii)	229,148	53,845	–
Twin Tigers Coatings	5,000	–	–
Shanxian Xinnuo Photoelectric	2,000	–	–
Mr. Gao Lei	108	–	–
Mr. Shen Yingming	32	–	–
Hebei Kangshi (xi)	–	–	58,128
	<u>496,079</u>	<u>56,985</u>	<u>58,128</u>

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	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Settled from loans to			
Linuo Investment (vii)	188,387	487,835	–
Linuo Group (vii)	92,039	570,194	5
Twin Tigers Coatings	5,000	–	–
Shanxian Xinnuo Photoelectric	1,000	1,000	–
Mr. Gao Lei	–	108	–
Mr. Zou Xiaohong	40	–	200
Mr. Shen Yingming	–	32	–
Hebei Kangshi (xi)	–	–	13,394
	<u>286,466</u>	<u>1,059,029</u>	<u>13,599</u>
Borrowings from			
Yingcheng Wuhan Organic (viii)	86,542	177	–
Hebei Kangshi (ix)	26,030	–	–
	<u>112,572</u>	<u>177</u>	<u>–</u>
Repayments of borrowings from			
Yingcheng Wuhan Organic (viii)	76,542	20,177	–
Hebei Kangshi (ix)	26,030	–	–
	<u>102,572</u>	<u>20,177</u>	<u>–</u>

Notes:

- (i) During the Relevant Periods, the Group leased buildings and received property management service from Linuo Investment.
- (ii) During the years ended December 31, 2021, 2022, and 2023, the Group received dining service and property management service from Linuo Wisdom Park Technology. During the year ended December 31, 2023, the Group only receives dining service from Linuo Wisdom Park Technology.
- (iii) During the Relevant Periods, the Group leased buildings and purchased industrial products from Twin Tigers Coatings.
- (iv) During the Relevant Periods, the Group purchased industrial products from Tiantong Fine Chemicals and Hebei Kangshi, purchased processing service provided by Hebei Kangshi since September 2023, and purchased health products from Shandong Hongjitang Health.
- (v) During the Relevant Periods, the Group purchased machinery from Xinkang Chemical and Twin Tigers Coatings.
- (vi) During the Relevant Periods, the Group sold industrial products to Wuhan Eastman, Hubei Tuopu, Twin Tigers Coatings, Tiantong Fine Chemicals, and Yingcheng Wuhan Organic. In addition, the Group provided processing and leasing of storage tanks to Twin Tigers Coatings and other services to Xinkang Chemical.

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- (vii) During the years ended December 31, 2021, and 2022, and 2023, the Group provided loans to and received payments from Linuo Group. Certain loans with aggregate principal amount of RMB200,000,000 at December 31, 2021, are interest-bearing at rates ranging from 6.96% to 8.64% per annum. During the years ended December 31, 2021, and 2022, the interest income was RMB17,520,000, and RMB4,320,000, respectively. The remaining loans are interest-free. All loans are unsecured and repayable within one year.

RMB502,307,362 of the outstanding loans recorded in other receivables due from Linuo Group were offset by the dividends declared to Mr. Gao Lei and Mr. Shen Yingming in 2022 (note 11), including the RMB200,000,000 interest-bearing loan being offset in full.

RMB383,605,772 of the outstanding loans recorded in other receivables due from Linuo Investment were offset by the dividends declared to Mr. Gao Lei and Linuo Investment in 2022 (note 11).

- (viii) During the years ended December 31, 2021, and 2022, the Group borrowed from Yingcheng Wuhan Organic at an interest rate of 12% per annum. During the years ended December 31, 2021, and 2022, the interest expenses were RMB1,542,000, and RMB177,000, respectively. The loan is unsecured and repayable within one month.

- (ix) During the years ended December 31, 2021, the Group borrowed from Hebei Kangshi at an interest rate of 4.78% per annum. During the years ended December 31, 2021, the interest expense was RMB30,000. The loan is unsecured and repayable within one year.

- (x) In 2021, the Group disposed certain machinery and equipment with an aggregate carrying amount of RMB17,030,000 to Xinkang Chemical for a consideration of RMB1,590,000, with a disposal loss of RMB15,440,000 was recognized.

In 2022, the Group disposed certain machinery and equipment with an aggregate carrying amount of RMB120,000 to Xinkang Chemical for a consideration of RMB124,000, with a disposal gain of RMB4,000 was recognised.

- (xi) In 2023, the Group disposed certain machinery and equipment included in a construction in progress project with an aggregate carrying amount of RMB8,928,000 to Xinkang Chemical for a consideration of RMB8,928,000, with a disposal loss of nil was recognised.

- (xii) During the year ended December 31, 2023, the Group provided loans to Hebei Kangshi at an interest rate of 4.8% per annum, and the related interest income of RMB1,032,000 was recognised during the year. The loan is unsecured and repayable within one year.

The sales and purchase prices of goods were made with reference to published prices and conditions of the goods, and were mutually agreed by the Group and the related parties.

Except as mentioned in the notes (vii) above, the loans advanced to related parties are unsecured, non-interest bearing and repayable on demand. The loan receivables as at the end of each of the Relevant Periods are classified as current and included in "Prepayments, deposits and other receivables" on the face of the consolidated statements of financial position.

(c) Other transactions with related parties

- (i) Linuo Group guaranteed certain bank loans to the Group of RMB100,120,000, as at December 31, 2021, respectively, as disclosed in note 26(a) to the Historical Financial Information.
- (ii) Linuo Group and Linuo Investment jointly guaranteed certain bank loans to the Group of RMB145,186,000, as at December 31, 2021 as disclosed in note 26(a) to the Historical Financial Information.
- (iii) Linuo Group, Mr. Gao Yuankun and Ms. Chen Lianna jointly guaranteed certain bank loans to the Group of RMB49,618,000, as at December 31, 2021 as disclosed in note 26(a) to the Historical Financial Information.
- (iv) Linuo Group, Linuo Investment, Twin Tigers Coatings, Mr. Gao Yuankun and Ms. Chen Lianna jointly guaranteed certain bank loans to the Group of RMB100,168,000, as at December 31, 2021, as disclosed in note 26(a) to the Historical Financial Information.

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- (v) Linuo Group, Hainan Linuo, Twin Tigers Coatings, Mr. Gao Yuankun and Ms. Chen Lianna jointly guaranteed certain bank loans to the Group of RMB30,072,000, as at December 31, 2021, as disclosed in note 26(a) to the Historical Financial Information.
- (vi) Linuo Group and Mr. Gao Yuankun jointly guaranteed certain bank loans to the Group of RMB131,390,000, as at December 31, 2021 as disclosed in note 26(a) to the Historical Financial Information.
- (vii) Linuo Group guaranteed certain other borrowings to the Group of RMB25,000,000, as at December 31, 2021 as disclosed in note 26(e) to the Historical Financial Information.

All the above-mentioned guarantees provided by related parties over the Group’s certain bank loans and other borrowings have been released as of December 31, 2022, as disclosed in note 26 to the Historical Financial Information.

- (viii) At December 31, 2021, the Group provided guarantees of RMB267,000,000, RMB40,000,000, RMB3,000,000 and RMB64,000,000 to the loans borrowed by Linuo Investment, Twin Tigers Coatings, Xinkang Chemical and Hebei Kangshi, respectively. At December 31, 2022, the Group provided guarantee of RMB24,960,000 to the loan borrowed by Hebei Kangshi, which was released as of July 20, 2023. The guarantees provided by the Group to other related parties has been released as of December 31, 2022.

The Group did not pay or incur any liability during the Relevant Periods for the purpose of fulfilling the guarantees. The Group did not hold any collateral or other credit enhancements over the guarantees. The carrying amount of the financial guarantees as at the end of each of the Relevant Periods was not significant. The credit exposure of the financial guarantee contracts is classified as stage 1. During the Relevant Periods, there were no transfers between stages.

(d) Outstanding balances with related parties

The Group had the following outstanding balances with related parties at December 31, 2021, 2022 and 2023.

	As at December 31,		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from related parties included in prepayments, deposits and other receivables (non-trade in nature)			
Linuo Group (<i>note(b)(vii)</i>)*	562,480	5	–
Linuo Investment*	435,134	–	–
Cougar Holdings	1,595	1,595	–
Shanxian Xinnuo Photoelectric	1,000	–	–
Mr. Zou Xiaohong (<i>note 22</i>)	549	549	349
Wuhan Eastman	499	188	220
Mr. Gao Lei (<i>note 22</i>)	108	–	–
Twin Tigers Coatings	100	641	1,134
Hebei Kangshi	51	–	44,734
Mr. Shen Yingming (<i>note 22</i>)	32	–	–
Xinkang Chemical	3	1,026	–
	<u>1,001,551</u>	<u>4,004</u>	<u>46,437</u>
Included in prepayments, deposits and other receivables (trade in nature)			
Xinkang Chemical	–	–	10,326
Hebei Kangshi	–	5,000	3,000
Linuo Investment	7,309	4,800	–
	<u>7,309</u>	<u>9,800</u>	<u>13,326</u>

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	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Included in trade receivables (trade in nature)			
Twin Tigers Coatings	1,616	–	–
Xinkang Chemical	1,410	291	–
Wuhan Eastman	–	5,245	1,267
Hebei Kangshi	–	355	–
Hubei Tuopu	–	32	–
	<u>–</u>	<u>32</u>	<u>–</u>
Impairment	(15)	(30)	(6)
	<u>(15)</u>	<u>(30)</u>	<u>(6)</u>
	<u>3,011</u>	<u>5,893</u>	<u>1,261</u>
Total amounts due from related parties	<u>1,011,871</u>	<u>19,697</u>	<u>61,024</u>

The Group’s trading terms with related parties are the same as other customers of the Group (note 20).

The trade receivables due from related parties are non-interest-bearing and unsecured. The ECL assessment of the trade receivables is disclosed in note 20 to the Historical Financial Information.

Except for the loans due from Linuo Group as disclosed in note 36(b)(vii) above, the other receivables due from related parties are non-interest bearing, unsecured and repayable on demand and with no recent history of default and past due amounts. The loss allowance was assessed to be minimal.

The above non-trade balances due from related parties included in prepayments, deposits and other receivables will be settled by the Group prior to the [REDACTED].

* On March 31, 2022, according to the agreement entered into by Cougar Holdings, Mr. Gao Lei, Mr. Shen Yingming, Linuo Investment, Linuo Group, Wuhan Youji Employee Trust and Wuhan Youji, the dividends of RMB820,026,606 declared by the Company were used to settle receivables due from related parties. Dividends of RMB428,194,573 declared to Mr. Gao Lei and RMB48,420,215 declared to Mr. Shen Yingming were used to offset the Group’s receivables due from Linuo Group, and dividends of RMB343,411,818 declared to Linuo Investment were used to offset the Group’s receivables due from Linuo Investment as of March 31, 2022 (note 11).

On December 28, 2022, according to the agreement entered into by Wuhan Youji Holdings Ltd, Mr. Gao Lei, Mr. Shen Yingming, Vastocean Capital Limited, SYM Holdings Limited, Custodian Capital Ltd., Linuo Investment, Linuo Group and Wuhan Youji Industries Co., Ltd., the dividends of RMB65,886,529 declared by the Company were used to settle receivables due from related parties. Dividends of RMB12,515,269 declared to Mr. Gao Lei and RMB13,177,305 declared to Mr. Shen Yingming were used to offset the Group’s receivables due from Linuo Group, and dividends of RMB40,193,955 declared to Mr. Gao Lei were used to offset the Group’s receivables due from Linuo Investment as of December 28, 2022 (note 11).

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	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Due to related parties included in other payables and accruals (non-trade in nature)			
Hebei Kangshi	–	7	–
Due to related parties included in other payables and accruals (trade in nature)			
Mr. Zou Xiaohong	–	–	1
Shandong Hongjitang	–	–	5
Linuo Investment	–	–	3,245
Xinkang Chemical	380	5,387	2,407
Shandong Chengan	660	283	74
Linuo Wisdom Park Technology	1,109	873	36
Shandong Linuo Photovoltaic	57	57	57
Twin Tigers Coatings	7	7	–
	<u>2,213</u>	<u>6,607</u>	<u>5,825</u>
Included in other borrowings			
Yingcheng Wuhan Organic (<i>note 36(b)(viii)</i>)	20,000	–	–
Included in contract liabilities (trade in nature)			
Yingcheng Wuhan Organic	7	16	2
Included in trade payable (trade in nature)			
Hebei Kangshi	–	–	139
Total amounts due to related parties	<u>22,220</u>	<u>6,630</u>	<u>5,966</u>

The financial liabilities included in the above balances are non-interest bearing, unsecured and repayable within one year.

The above non-trade balances due to related parties included in other payables and accruals will be settled by the Group prior to the [REDACTED].

(e) Financing arrangements

The following transactions were carried out with the related parties:

- (i) Pursuant to the agreements between the Group and Twin Tigers Coatings, the Group leased land and plant from Twin Tigers Coatings for a lease term from July 13, 2020 to July 12, 2025. The lease terms were mutually agreed between parties. Right-of-use assets and lease liabilities were recognized at the commencement date of the leases. The amount of rent payable by the Group under the lease was approximately RMB171,000 per month.

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	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Included in lease liabilities:			
Amounts owed to Twin Tigers			
Coatings	6,495	4,738	2,890
Related interest expenses	384	298	206
Related depreciation charged	1,806	1,806	1,806
	<u> </u>	<u> </u>	<u> </u>

(ii) Pursuant to an agreement between the Group and Linuo Investment, the Group leased buildings from Linuo Investment for a lease term from January 1, 2021 to December 31, 2021. The lease terms were mutually agreed between parties. The Group has applied short-term lease recognition exemption to this lease. The amount of rent payable by the Group under the lease was RMB200,000 per month. In 2022, the Group entered into three long-term lease agreements leasing buildings and leasehold land from Linuo Investment including:

- A lease agreement with 3-years lease term from January 1, 2022 to December 31, 2024 at a monthly rental of RMB600,000;
- A lease agreement with 2.6-year lease term from June 1, 2022 to December 31, 2024 at a monthly rental of RMB50,000;
- A lease agreement with 5-year lease term from July 1, 2022 to June 30, 2027 at an annual rental of RMB3,000,000, which was amended on July 1, 2023, with reduced leasing area at an annual rental of RMB1,800,000, charged at the same rent per unit area.

These agreements have been recognized as lease liabilities and right-of-use assets (note 14).

	As at December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Included in lease liabilities:			
Amounts owed to Linuo Investment	–	23,712	11,711
Related interest expenses	–	943	849
Related depreciation charged	–	7,750	8,731
	<u> </u>	<u> </u>	<u> </u>

(f) Compensation of key management personnel of the Group

	Year ended December 31,		
	2021	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Salaries, allowances and benefits in kind	3,910	4,518	4,712
Performance-based bonuses	5,400	6,110	–
Equity-settled share award expenses	102	102	102
Pension scheme contributions	270	282	217
	<u> </u>	<u> </u>	<u> </u>
	<u>9,682</u>	<u>11,012</u>	<u>5,031</u>

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37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

As at December 31, 2021

Financial assets

	Financial assets at amortized cost	Financial assets at FVTPL	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade and bills receivables	99,157	135,201	234,358
Financial assets included in prepayments, deposits and other receivables	1,019,500	–	1,019,500
Pledged deposits	49,504	–	49,504
Cash and cash equivalents	69,461	–	69,461
	<u>1,237,622</u>	<u>135,201</u>	<u>1,372,823</u>

Financial liabilities

	Financial liabilities at amortized cost
	<i>RMB’000</i>
Interest-bearing bank and other borrowings	716,107
Trade and bills payables	196,250
Financial liabilities included in other payables and accruals	162,093
Lease liabilities	30,353
	<u>1,104,803</u>

As at December 31, 2022

Financial assets

	Financial assets at amortized cost	Financial assets at FVTPL	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade and bills receivables	142,406	184,573	326,979
Financial assets included in prepayments, deposits and other receivables	23,097	–	23,097
Pledged deposits	64,675	–	64,675
Cash and cash equivalents	83,451	–	83,451
	<u>313,629</u>	<u>184,573</u>	<u>498,202</u>

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Financial liabilities

	Financial liabilities at amortized cost
	<i>RMB’000</i>
Interest-bearing bank and other borrowings	734,300
Trade and bills payables	171,228
Financial liabilities included in other payables and accruals	279,032
Lease liabilities	46,835
	<u>1,231,395</u>

As at December 31, 2023

Financial assets

	Financial assets at amortized cost	Financial assets at FVTPL	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade and bills receivables	96,587	199,727	296,314
Financial assets included in prepayments, deposits and other receivables	70,407	10,500	80,907
Pledged deposits	40,127	–	40,127
Cash and cash equivalents	65,433	–	65,433
	<u>272,554</u>	<u>210,227</u>	<u>482,781</u>

Financial liabilities

	Financial liabilities at amortized cost
	<i>RMB’000</i>
Interest-bearing bank and other borrowings	917,520
Trade and bills payables	149,705
Financial liabilities included in other payables and accruals	293,780
Lease liabilities	27,590
	<u>1,388,595</u>

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, trade and bills payables and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group’s finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each of the Relevant Periods, the finance department analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the directors of the Company once a year for annual financial reporting.

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The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values of bills receivable and other current asset have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value during each of the Relevant Periods were assessed to be insignificant.

The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of the non-current portion of interest-bearing bank loans are assessed to be approximate to its carrying amount as at December 31, 2022 and 2023. The changes in fair values as a result of the Group’s own non-performance risk for interest-bearing bank loans as at December 31, 2022 and 2023 were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group’s financial instruments:

Assets measured at fair value:

As at December 31, 2021

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Bills receivable	–	135,201	–	135,201

As at December 31, 2022

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Bills receivable	–	184,573	–	184,573

As at December 31, 2023

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB’000	RMB’000	RMB’000	RMB’000
Bills receivable	–	199,727	–	199,727
Investment in a fund	–	10,500	–	10,500
	–	210,227	–	210,227

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets during each of the Relevant Periods.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise interest-bearing bank and other borrowings, cash and cash equivalents, and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial assets and liabilities such as trade and bills receivables, trade and bills payables and other receivables and payables, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are foreign currency risk, credit risk and liquidity risk. The directors of the Company review and agree policies for managing each of these risks and they are summarized below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales in currencies other than the units’ functional currencies. Approximately 22%, 23% and 23% for the years ended December 31, 2021, 2022 and 2023, respectively, of the Group’s sales were denominated in currencies other than the functional currencies of the operating units making the sale.

The following table demonstrates the sensitivity to a reasonably possible change in the Euro (“EUR”) and RMB exchange rate, USD and RMB exchange rate, of the Group’s profit before tax and equity.

	<u>Increase/(decrease) in exchange rate</u>	<u>Increase/(decrease) in profit before tax</u>	<u>Increase/(decrease) in equity</u>
	%	RMB’000	RMB’000
2023			
If the USD weakens against the RMB	(5)	(4,453)	(3,370)
If the USD strengthens against the RMB	5	4,453	3,370
If the EUR weakens against the RMB	(5)	(48)	(36)
If the EUR strengthens against the RMB	5	48	36
2022			
If the USD weakens against the RMB	(5)	(3,360)	(2,540)
If the USD strengthens against the RMB	5	3,360	2,540
If the EUR weakens against the RMB	(5)	(16)	(12)
If the EUR strengthens against the RMB	5	16	12
2021			
If the USD weakens against the RMB	(5)	(3,683)	(2,748)
If the USD strengthens against the RMB	5	3,683	2,748
If the EUR weakens against the RMB	(5)	(31)	(23)
If the EUR strengthens against the RMB	5	31	23

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade and bills receivables, prepayments, deposits and other receivables, and pledged deposits included in the statements of financial position represent the Group’s maximum exposure to credit risk in relation to its financial assets.

As at the end of each of the Relevant Periods, cash and cash equivalents and pledged deposits were deposited in banks of high quality without significant credit risk. Management does not expect any loss to arise from non-performance by these banks.

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Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group’s credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification. The amounts presented are gross carrying amounts for financial assets.

As at December 31, 2021

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Trade receivables	–	–	–	99,655	99,655
Financial assets included in prepayments, deposits and other receivables					
– Normal*	1,019,500	–	–	–	1,019,500
Pledged deposits	49,504	–	–	–	49,504
Cash and cash equivalents	69,461	–	–	–	69,461
	1,138,465	–	–	99,655	1,238,120

As at December 31, 2022

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Trade receivables	–	–	–	143,218	143,218
Financial assets included in prepayments, deposits and other receivables					
– Normal*	23,097	–	–	–	23,097
Pledged deposits	64,675	–	–	–	64,675
Cash and cash equivalents	83,451	–	–	–	83,451
	171,223	–	–	143,218	314,441

As at December 31, 2023

	12-month ECLs	Lifetime ECLs			Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	
Trade receivables	–	–	–	97,211	97,211
Financial assets included in prepayments, deposits and other receivables					
– Normal*	70,407	–	–	–	70,407
Pledged deposits	40,127	–	–	–	40,127
Cash and cash equivalents	65,433	–	–	–	65,433
	175,967	–	–	97,211	273,178

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Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral on normal basis.

There are no significant concentrations of credit risk within the Group as the customer bases of the Group’s trade receivables are widely dispersed in industries.

- * The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group’s financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

As at December 31, 2021

	Less than 12 months or on demand	After 1 year but within 2 years	After 2 year but within 3 years	After 3 year but within 4 years	After 4 year but within 5 years	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Lease Liabilities	8,683	8,409	8,019	6,811	2,785	34,707
Interest-bearing bank and other borrowings	731,737	–	–	–	–	731,737
Trade and bills payables	196,250	–	–	–	–	196,250
Financial liabilities included in other payables and accruals	162,093	–	–	–	–	162,093
	<u>1,098,763</u>	<u>8,409</u>	<u>8,019</u>	<u>6,811</u>	<u>2,785</u>	<u>1,124,787</u>

As at December 31, 2022

	Less than 12 months or on demand	After 1 year but within 2 years	After 2 year but within 3 years	After 3 year but within 4 years	After 4 year but within 5 years	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Lease Liabilities	18,317	17,928	9,609	5,537	–	51,391
Interest-bearing bank and other borrowings	677,293	33,058	42,554	–	–	752,905
Trade and bills payables	171,228	–	–	–	–	171,228
Financial liabilities included in other payables and accruals	279,032	–	–	–	–	279,032
	<u>1,145,870</u>	<u>50,986</u>	<u>52,163</u>	<u>5,537</u>	<u>–</u>	<u>1,254,556</u>

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As at December 31, 2023

	Less than 12 months or on demand	After 1 year but within 2 years	After 2 year but within 3 years	After 3 year but within 4 years	After 4 year but within 5 years	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Lease Liabilities	16,868	8,550	4,440	-	-	29,858
Interest-bearing bank and other borrowings	873,793	66,310	-	-	-	940,103
Trade and bills payables	149,705	-	-	-	-	149,705
Financial liabilities included in other payables and accruals	293,780	-	-	-	-	293,780
	<u>1,334,146</u>	<u>74,860</u>	<u>4,440</u>	<u>-</u>	<u>-</u>	<u>1,413,446</u>

Capital management

The primary objectives of the Group’s capital management are to safeguard the Group’s abilities to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders’ value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital as at the end of each of the Relevant Periods.

The Group uses the gearing ratio which is net debt divided by the capital plus net debt to monitor its capital structure. The gearing ratio as at the end of each of the Relevant Periods were as follows:

	As at December 31,		
	2021	2022	2023
	RMB’000	RMB’000	RMB’000
Interest-bearing bank and other borrowings (note 26)	716,107	734,300	917,520
Lease liabilities (note 14)	30,353	46,835	27,590
Less: Cash and cash equivalents (note 23)	(69,461)	(83,451)	(65,433)
Pledged deposits	(49,504)	(64,675)	(40,127)
Net debt	<u>627,495</u>	<u>633,009</u>	<u>839,550</u>
Equity attributable to owners of the parent	<u>1,520,318</u>	<u>726,107</u>	<u>529,617</u>
Capital and net debt	<u>2,147,813</u>	<u>1,359,116</u>	<u>1,369,167</u>
Gearing ratio	<u>29%</u>	<u>47%</u>	<u>61%</u>

40. EVENTS AFTER THE RELEVANT PERIODS

The Group has no significant events subsequent to the end of the Relevant Periods.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of its subsidiaries in respect of any period subsequent to December 31, 2023.