You should read the following discussion and analysis in conjunction with our consolidated financial statements included in "Accountants' Report" in Appendix I to this document. Our consolidated financial information has been prepared in accordance with HKFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and projections depends on a number of risks and uncertainties some of which are beyond our control. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this document.

OVERVIEW

We are a petroleum refinery and petrochemical equipment manufacturer based in Henan province, the PRC. We are principally engaged in the manufacturing and sale of petroleum refinery and petrochemical equipment. Our products are customised to meets customers' specification and requirements, on a contract basis in which are divided into four product categories, namely (i) SRU and VOCs incineration equipment; (ii) catalytic cracking equipment; (iii) process burners; and (iv) heat exchangers, including their related parts and components, to our downstream customers in the PRC. Our Group was the third largest catalytic cracking equipment manufacturer for petroleum refinery and petrochemical operations in the PRC with a market share of approximately 7.6% in terms of revenue in 2023; we were also the second largest SRU and VOCs incineration equipment manufacturer in petroleum refinery and petrochemical operation in the PRC with a market share of approximately 3.4% in terms of revenue in 2023. We also provide installation services for the equipment manufactured by us and/or ancillary facilities such as electrical erection work and mechanical erection work to our customers during the Track Record Period.

Our customers mainly comprised market participants in the petroleum refinery and petrochemical industries in the PRC, which can be further classified into owners of production facilities; third-party contractors; equipment manufacturers; and others. Established in 1994, we have forged and maintained strong and stable relationship with industry-renowned customers, which included subsidiaries and branches of the three largest petroleum refinery and petrochemical group in the PRC and one of the largest EPC contractors in the petroleum refinery and petrochemical operations in the PRC. The business relationship between our Group and our five largest customers during the Track Record Period has ranged from two to 29 years.

The following table sets out a breakdown of revenue by business activities for the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Manufacturing and sale of equipment						
SRU and VOCs incineration equipment	101,719	41.0	72,854	17.4	77,218	14.2
Catalytic cracking equipment	63,273	25.5	251,625	60.0	319,266	58.7
Process burners	29,971	12.1	45,046	10.8	114,264	21.0
Heat exchangers	50,832	20.5	45,767	10.9	33,381	6.1
Subtotal	245,795	99.1	415,292	99.1	544,129	100.0
Installation services	2,249	0.9	3,781	0.9	—	—
Total	248,044	100.0	419,073	100.0	544,129	100.0

During the Track Record Period, we mainly operated two production facilities in Luoyang city, Henan province, the PRC, with a total gross floor area of approximately 20,807.4 sq.m.. For the year ended 31 December 2023, the utilisation rate of each of our self-owned production facilities was approximately 100.9% and 70.1%, respectively. In order to capture the growing market demand for refinery and petrochemical equipment from overseas customers, we have leased a production facility with a gross floor area of 7,400 sq.m. in Taizhou city, Jiangsu province, the PRC on 1 June 2023, which our Directors consider we can enjoy convenient transportation advantage for a production facility near the coastal ports.

During the Track Record Period and up to the Latest Practicable Date, our principal market has been the PRC. Internationally, we have also established overseas presences in Hong Kong, Canada and Brazil with a view to expanding our market presence. During the Track Record Period, our revenue was substantially generated from contracts with customers located in the PRC.

For the years ended 31 December 2021, 2022 and 2023, our revenue was approximately RMB248.0 million, RMB419.1 million and RMB544.1 million, respectively. Our net profit for the same periods were approximately RMB13.2 million, RMB36.5 million and RMB55.2 million, respectively.

BASIS OF PREPARATION AND PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 February 2020. To rationalise the corporate structure in preparation of the **[REDACTED]**, our Group underwent the Reorganisation. For details, see "History, Reorganisation and Corporate Structure — Reorganisation" in this document. Upon the completion of the Reorganisation on 26 May 2021, our Company has became the holding company of the companies now comprising our Group.

The historical financial information of our Group has been prepared as if the current group structure had been in existence throughout the Track Record Period. Our historical financial information has been prepared by our Directors in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong. We have adopted all applicable new and revised HKFRSs that are effective during the Track Record Period.

The basis of preparation and presentation of our historical financial information is set out in note 2 of the Accountants' Report in Appendix I to this document.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial position have been and will continue to be affected by the following key factors.

Demand for our petroleum refinery and petrochemical equipment in the PRC

During the Track Record Period, we manufacture and sell petroleum refinery and petrochemical equipment, which are customised according to customers' specification and requirements. Our revenue growth depends on levels of domestic petroleum refinery and petrochemical development in PRC. According to F&S report, the refining capacity of China has increased from 873.4 million tonnes in 2018 to 936.0 million tonnes in 2023, representing a CAGR of approximately 1.4%, and it is expected to reach one billion tonne a year by 2025. Ethylene production is one of the important symbols to measure the development level of petrochemical industry. Between 2018 and 2023, the production of ethylene in the PRC increased from 23.5 million tonnes to 46.8 million tonne for the same period, representing a CAGR of approximately 14.8%. In order to fulfil the accelerating demand of downstream industries in the future, the production capacity of ethylene is expected to have a further rise with a CAGR of around 9.9%, reaching approximately over 85 million tonnes by 2028, bringing about rising demand for corresponding equipment. In addition, the PRC government has issued several policies and regulations, that emphasised the transformation of quality and efficiency for the petrochemical industry and promoting the development of the petrochemical industry; and encouraged the replacement of outdated petrochemical equipment with advanced petrochemical equipment. Hence, the increasing refining capacity, the structural adjustment of refineries that promote the replacement of existing equipment and the rapid petrochemical industry has ensured the continuous demand for petroleum refinery and petrochemical equipment over the past few years. The market size of petroleum refinery and petrochemical equipment in China increased from RMB484.9 billion in 2018 to RMB715.1 billion in 2023, representing a CAGR of approximately 8.1%. The market is forecasted to grow at a CAGR of approximately 6.5% from 2023 to 2028, reaching RMB979.2 billion in 2028.

Prompted by the market growth, our revenue increased by approximately 69.0% from approximately RMB248.0 million for the year ended 31 December 2021 to approximately RMB419.1 million for the year ended 31 December 2022, and further increased by approximately 29.8% to approximately RMB544.1 million for the year ended 31 December 2023, representing a CAGR of 48.1% from 2021 to 2023. Nevertheless, if there is a decline in the market demand for our products, or if there is a slowdown in the market we operate in, the demand of our products may be curtailed and our growth, prospects and profitability may in turn be adversely affected.

Pricing of our products

Our products are broadly categorised into (i) SRU and VOCs incineration equipment; (ii) catalytic cracking equipment; (iii) process burners; and (iv) heat exchangers, which have different ranges of profit margins, levels of demands and selling price. Our pricing strategy has historically affected and is expected to continue to affect our financial performance in the future. We generally price our products on a cost-plus basis, under which we take into account a variety of factors including cost of materials and components used, production costs, processing complexity, customers' specification, outsourcing service fees and expected profit margin. We generally secure our contracts directly with our customers through our sales referrals, tendering/quotations, or direct negotiation. We determine each order or contract price and negotiate with each related customer on a case-by-case basis. If we are unable to respond to the market demands and preferences, our results may be affected.

Cost of our materials and components used and direct labour

Cost of materials and components used and direct labour incurred for production are the main components of our cost of sales during the Track Record Period. Our cost of materials and components used accounted for approximately 76.5%, 81.4% and 82.1% of our cost of sales for the years ended 31 December 2021, 2022 and 2023, respectively. We generally purchase materials and components, the majority of which are steel materials such as steel plates and steel pipe, and related components which are made of steel, from our suppliers in the PRC. According to the F&S report, steel prices can be affected by various factors, such as market supply and demand levels, fluctuations of its raw materials such as iron ore and coking coal, related government policies and our bargaining power over our steel materials suppliers. From 2016 to 2021, the price index of overall steel plates in the PRC has experienced an enormous fluctuation. In addition, we procure a variety of other materials and components which affect our operating results, such as fire resistant materials, glass materials and electrical parts, etc. Since the selling prices of our products are generally determined on a cost-plus basis, fluctuations in the purchase prices of steel materials or other materials and components will have a significant impact on our revenue levels. If there is a substantial increase in the purchase prices of steel materials or other materials and components and we are unable to pass on all or part of the increase in such cost to our customers, our profitability and financial performance may be materially and adversely affected. For further information, see "— Sensitivity analysis" in this section for the sensitivity analysis of the cost of materials and components of our products.

Our direct labour cost accounted for approximately 5.2%, 3.8% and 3.5% of our cost of sales for the years ended 31 December 2021, 2022 and 2023, respectively. According to the F&S Report, average wages of urban employees in manufacturing industry in the PRC has increased from RMB59,470.0 in 2016 to RMB102,697 in 2023, representing a CAGR of 8.1% from 2016 to 2023. Our staff cost may increase in the future as a result of rising labour costs in the PRC and the expansion of our operations.

Research and development

Our Directors believe our research and development capabilities have been and will continue to be critical to our business and competitiveness. For further information, see "Business — Research and Development". To enhance our competitiveness, we have substantial investment in research and development. Our total research and development expense during the Track Record Period were approximately RMB18.7 million, RMB25.1 million and RMB38.0 million, respectively. We intend to continuously enhance our research and development capabilities and maintain our market presence in the industry by fully utilising our research and development facilities and resources. Our ability to develop new products, improve existing products and enhance our manufacturing processes will have a material effect on our production and sales volumes and, consequently, our business, results of operations, financial condition and profitability.

Preferential tax rates

Our wholly-owned subsidiaries, Luoyang Ruichang and Shanghai Ruiqieer have obtained the certificate of High Technology Enterprises and are currently entitled to a preferential income tax rate of 15% on its taxable income. The qualification of Luoyang Ruichang as a High Technology Enterprise is currently valid through November 2023 to November 2026. The qualification of Shanghai Ruiqieer as a High Technology Enterprise is currently valid through December 2021 to December 2024. Given that most of our revenue was and is expected to be generated by Luoyang Ruichang and Shanghai Ruiqieer during the Track Record Period and in foreseeable future, such entitlement to preferential tax rate will have a substantial impact on our Group's results of operations, given that the difference between the preferential tax rate 15% and non-preferential tax rate 25% is relatively significant. In the event that this preferential tax treatment is discontinued, Luoyang Ruichang and Shanghai Ruiqieer will be subject to a 25% standard enterprise income tax rate, which would increase our income tax expenses and could materially reduce our profitability.

MATERIAL ACCOUNTING POLICY INFORMATION AND KEY ACCOUNTING ESTIMATES

We have identified certain accounting policies, that we believe are significant to the preparation of our consolidated financial information and the understanding of our results of operations and financial conditions. Some of the accounting policies require our management to make judgements and apply estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. We review the estimates and underlying assumptions regularly as they may have a significant impact on our operational results as reported in our historical financial information or included elsewhere in this document.

For further details regarding our material accounting policy information and key accounting estimates, see notes 4 and 5 in the Accountants' Report set out in Appendix I to this document.

RESULTS OF OPERATIONS OF OUR GROUP

The following table sets forth a summary of the results of operations of our Group for the Track Record Period, as derived from the Accountants' Report set out in Appendix I to this document.

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	248,044	419,073	544,129
Cost of sales	(177,146)	(286,057)	(352,581)
Gross profit	70,898	133,016	191,548
Other income and gains, net	8,577	1,824	4,355
Selling expenses	(14,708)	(20,506)	(24,803)
Administrative expenses	(23,475)	(28,172)	(41,279)
Research and development expenses	(18,658)	(25,084)	(37,963)
[REDACTED]	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Reversal of impairment/(impairment losses) of financial assets and contract assets	3,373	(3,871)	(5,885)
Share of results of an associate	(1)	6	60
Finance costs	(3,287)	(3,746)	(5,921)
Profit before tax	17,643	44,100	67,480
Income tax expenses	(4,397)	(7,567)	(12,269)
Profit for the year	13,246	36,533	55,211
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss:			
Fair value changes of financial assets at fair value through other comprehensive income	—	(2,316)	(329)
Items that may be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations	950	387	(217)
Total comprehensive income for the year	14,196	34,604	54,665
Profit/(loss) for the year attributable to:			
Owners of the Company	13,423	36,533	55,211
Non-controlling interests	(177)	—	—
	13,246	36,533	55,211

NON-HKFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented adjusted profit (non-HKFRS measure) and adjusted net profit margin (non-HKFRS measure) as an additional financial measures which are not required by, or presented in accordance with HKFRS. We believe that the presentation of non-HKFRS financial measures when shown in conjunction with the corresponding HKFRS financial measures provides useful information to potential investors and management in understanding and evaluating our operating performance from period to period. In addition, the non-HKFRS financial measures may be defined differently from similar terms used by other companies and therefore, may not be comparable to similar measures presented by other companies.

The following table sets forth the adjusted profit (non-HKFRS measure) and adjusted net profit margin (non-HKFRS measure) in each respective year during the Track Record Period:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	13,246	36,533	55,211
Add: **[REDACTED]** (1)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Adjusted profit for the year (non-HKFRS measure)(2)	18,322	45,900	67,843
Adjusted net profit margin for the year (non-HKFRS measure)(3)	7.4%	11.0%	12.5%

Notes:

(1) Our **[REDACTED]** are arising from activities relating to the **[REDACTED]**.

(2) We calculated the adjusted profit (non-HKFRS measure) for the year by adding back the **[REDACTED]** to the profit for the year as presented in accordance with HKFRS.

(3) We calculated the adjusted net profit margin (non-HKFRS measure) by dividing adjusted net profit (non-HKFRS measure) for the year by revenue for the year and multiplied by 100%.

DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Our Group is a petroleum refinery and petrochemical equipment manufacturer based in Luoyang city, Henan province, the PRC, mainly offering (i) SRU and VOCs incineration equipment; (ii) catalytic cracking equipment; (iii) process burners; and (iv) heat exchangers. During the Track Record Period, our customers mainly comprised market participants in the petroleum refinery and petrochemical industries in the PRC, which can be further classified into owners of production facilities; third-party contractors; equipment manufacturers; and others. Revenue is substantially recognised at a point in time when the goods are accepted by the customers after delivery to the customers' designated sites since only by that time our Group passes control of the equipment to our customers.

We principally provided the sale of equipment and the related parts and components and our equipment are highly customised to meet the requirements of our customers and every product differs in size, design plan, specifications and applications. Moreover, the manufacturing time for a piece of equipment depends on the size, manufacturing requirements, specification and complexity of a product, which vary on a case-by-case basis.

Customer demand for our equipment is the key driver of our Group's revenue during the Track Record Period. The sale of different products in each period depends on the product mix requested by our customers. As a result, our sales is dependent on our ability to continuously develop and satisfy customers' requirements and demand. In addition, our sales is also dependent on our selling price of products. We generally determine our pricing on a case-by-case basis by adopting a cost-plus pricing model, where we determine the price of our equipment by taking into account various factors such as the cost of materials and components, overhead, labour costs, transportation costs, technical requirement, customer relationships, competitive landscape, production schedule, contract sum and our business strategies adopted from time to time. Based on the F&S Report, the price of our equipment for sales was negotiated with consideration of same basis with other major petroleum refinery and petrochemical equipment companies in the PRC during the Track Record Period, and our Directors are therefore of the view that the price offered by our Group during the Track Record Period were in line with industry practice and were comparable with other major market players in the PRC.

Upon request, we also provide installation services for equipment manufactured by us and/or ancillary facilities such as electrical erection work and mechanical erection work, to our customers under manufacturing and sale of equipment during the Track Record Period. Our installation services is part and parcel of our manufacturing and sale of equipment as we provide installation services to our customers under our manufacturing and sale of equipment business. We shall outsource such services to third-party installation companies. Not all of our customer under manufacturing and sale of equipment require installation services from us. Upon receiving requests for installation services from our customers, we estimated the cost we shall incur and/or obtain price quotation from third-party installation companies and provide our quotation to our customers. Our Group recognises revenue from provision of installation services by reference to the stage of completion of the contract activity at the end of each reporting period.

The table below sets out the breakdown of revenue by business activities for the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Manufacturing and sale of equipment						
SRU and VOCs incineration equipment	101,719	41.0	72,854	17.4	77,218	14.2
Catalytic cracking equipment	63,273	25.5	251,625	60.0	319,266	58.7
Process burners	29,971	12.1	45,046	10.8	114,264	21.0
Heat exchangers	50,832	20.5	45,767	10.9	33,381	6.1
Subtotal	245,795	99.1	415,292	99.1	544,129	100.0
Installation services	2,249	0.9	3,781	0.9	—	—
Total	248,044	100.0	419,073	100.0	544,129	100.0

Our total revenue for the years ended 31 December 2021, 2022 and 2023 was approximately RMB248.0 million, RMB419.1 million and RMB544.1 million, respectively.

Manufacturing and sale of equipment

Overall analysis

During the Track Record Period, most of our revenue were derived from our manufacturing and sale of equipment, accounting for approximately 99.1%, 99.1% and 100.0%, of our total revenue, respectively. Our revenue from manufacturing and sale of equipment increased by approximately RMB169.5 million or 69.0% from approximately RMB245.8 million for the year ended 31 December 2021 to approximately RMB415.3 million for the year ended 31 December 2022.

Such increase was mainly due to the increase in revenue of sales of catalytic cracking equipment and process burners by approximately RMB188.3 million and RMB15.0 million, respectively, and partially offset by the decrease in revenue of sales of SRU and VOCs incineration equipment and heat exchangers by approximately RMB28.9 million and RMB135.1 million, respectively, during the year ended 31 December 2022.

Increase of sales of catalytic cracking equipment and process burners for the year ended 31 December 2022

The increase in sales of catalytic cracking equipment, which was in turn resulted from increase in revenue from Customer A, our largest customer for the years ended 31 December 2021 and 2022, for the sales of catalytic cracking equipment. Customer A is a renowned PRC and Hong Kong listed group established in 2000 and one of the leading and largest oil refining and petrochemical groups in the PRC. Our Directors believe that Customer A have a high demand for our equipment and it is consistent to their significant capital expenditures for their refinery segment business, mainly related to their constructions of Anqing and Yangzi refining upgrading projects. In particular, we have entered into several contracts with Anqing branch office and Yangzi branch office of Customer A for the sales of catalytic cracking equipment, with an aggregate contract sum of approximately RMB124.2 million and RMB134.3 million (inclusive of VAT), respectively. During the year ended 31 December 2022, total revenue from Anqing branch office and Yangzi branch office of Customer A generated from sales of catalytic cracking equipment was approximately RMB109.9 million and RMB76.8 million, respectively. See section headed "Business — Our Customers — Our five largest customers" for more details of background of Customer A.

The increase in sales of process burners by approximately RMB15.0 million for the year ended 31 December 2022 was mainly due to the increased demand from Yangzi branch office of Customer A due to the reasons mentioned above.

Decrease of sales of SRU and VOCs incineration equipment for the year ended 31 December 2022

Our decrease in revenue from sales of SRU and VOCs incineration equipment by approximately RMB28.9 million for the year ended 31 December 2022 was mainly attributable to the decrease in revenue from sales of SRU and VOCs incineration equipment to Anqing branch office of Customer A and Guizhou Jinze by approximately RMB17.5 million and RMB10.2 million, respectively, as majority of the SRU and VOCs incineration equipment contracts with relatively higher contract sum obtained from these two customers had been completed during the year ended 31 December 2021. Since the production and manufacturing procedures of SRU and VOCs incineration equipment and catalytic cracking equipment are within the same production facilities at Yanguang Road, we generally take into account the availability of our resources, capacity, the number and schedule of contracts we are undertaking when tendering or accepting new or potential contracts of different product categories. During the year ended 31 December 2022, as we had focused our effort and resources for our ongoing contracts in relation to catalytic cracking equipment, particularly, the large-sized contracts from Anqing branch office and Yangzi branch office of Customer A, we obtained less contacts for SRU and VOCs incineration equipment, resulting in the decline of relevant sales of SRU and VOCs incineration equipment during the year ended 31 December 2022. The revenue from sales of catalytic cracking equipment accounted for approximately 60.0% of our total revenue during the year ended 31 December 2022.

Decrease of sales of heat exchangers for the year ended 31 December 2022

Our decrease of revenue from sales of heat exchangers from approximately RMB50.8 million for the year ended 31 December 2021 to approximately RMB45.8 million for the year ended 31 December 2022 was mainly due to decrease in sales to Ningbo Zhongneng, our second largest customer for 2021, as most of sale contracts obtained from Ningbo Zhongneng has been completed in 2021. We recognised sales of heat exchangers from Ningbo Zhongneng of approximately RMB23.7 million in 2021 while we did not record significant sales from Ningbo Zhongeng in 2022.

Overall analysis

We recorded revenue from manufacturing and sale of equipment of approximately RMB544.1 million for the year ended 31 December 2023, representing a growth of approximately RMB128.8 million or 31.0% as compared to the same period in 2022. Such increase was mainly derived from the increase in revenue from sales of catalytic cracking equipment and process burners by approximately RMB67.6 million and RMB69.3 million, respectively, during the year ended 31 December 2023; and partially offset by the decrease of sales of heat exchangers by approximately RMB12.4 million during the same year.

Following to the facts stated above for the decrease of revenue from sales of SRU and VOCs incineration equipment during the year ended 31 December 2022, the proportion of revenue from sales of catalytic cracking equipment remained relatively stable, accounting for approximately 60.0% and 58.7% of our total revenue for the years ended 31 December 2022 and 2023, respectively; and the revenue from sales of SRU and VOCs incineration equipment accounted for approximately 14.2% of our total revenue for the year ended 31 December 2023.

Increase of sales of catalytic cracking equipment for the year ended 31 December 2023

Our increase in revenue from sales of catalytic cracking equipment for the year ended 31 December 2023 was mainly attributable to (i) increased demand and sale orders from Customer I, our fourth largest customer for 2023, for the construction of Shandong Yulong Island refining and chemical integration project. We have recorded revenue of approximately RMB39.9 million from Customer I from sales of catalytic cracking equipment during the year ended 31 December 2023; while we only recorded relevant revenue of approximately RMB5.6 million from Customer I for the year ended December 2022; (ii) increased revenue from Customer B for the sales of cracking catalytic equipment, which was mainly contributed by Urumqi branch of Customer B for the construction of an integration project of refining and chemicals. Revenue contributed by Customer B for sales of cracking catalytic equipment was approximately RMB11.1 million for year ended 31 December 2023; (iii) increased sale orders and revenue from Customer H, our third largest customer for 2023, mainly for the construction of Daxie petrochemical reconstruction and expansion project (phase V). Customer H is one of the largest group specialising in oil and natural gas exploration and production, and remains the dominant crude oil and natural gas producer in China. We recorded revenue from sales of catalytic cracking equipment to Customer H of approximately RMB45.5 million for the year ended 31 December 2023; and (iv) increased sale orders and revenue from Customer J, our fifth largest customer for 2023, for the construction of a coal chemical facility in Inner Mongolia with recorded revenue of approximately RMB42.2 million for the year ended 31 December 2023. Details of the above projects are disclosed in section headed "Industry Overview — Overview of Petroleum Refinery and Petrochemical Industry in China" to this document.

At the same time, the above increase of revenue was partially offset by the overall decrease in revenue contributed by Customer A for sales of cracking catalytic equipment by approximately RMB44.0 million for the year ended 31 December 2023. Customer A is our Group's largest customer for each of the year ended 31 December 2021, 2022 and 2023 and our Directors considered the decrease of sales of catalytic cracking equipment to Customer A during the year ended 31 December 2023 was mainly due to the completion of certain significant sale contracts in 2022. For the year ended 31 December 2023, our sales to Customer A was mainly contributed from Yangzi branch office and Zhenhai subsidiary for the construction of Yangzi refining upgrading project and expansion of Zhenhai refining and chemical project, with aggregate revenue for sales of cracking catalytic equipment of approximately RMB141.0 million; while for the year ended 31 December 2022, majority of sales of cracking catalytic equipment was derived from Anqing branch office and Yangzi branch office of approximately RMB109.9 million and RMB76.8 million, respectively, and we have completed most of our sale contracts during the first half year of 2022. We did not enter into significant sale contracts with Anqing branch office for the year ended 31 December 2023, leading to a decrease of revenue from Anqing branch office for the relevant period.

Increase of sales of process burners for the year ended 31 December 2023

Our sales of process burners increased by approximately RMB69.3 million from approximately RMB45.0 million for the year ended 31 December 2022 to approximately RMB114.3 million for the year ended 31 December 2023, mainly due to (i) the completion of relevant sales to Customer G during the year ended 31 December 2023 with revenue of approximately RMB62.5 million recognised, accounting for approximately 54.7% of our revenue from sales of process burners in 2023. To the best knowledge of our Directors, our equipment supplied to Customer G is used for the construction of a chemical complex in Russia. Details of background of Customer G are disclosed in section headed "Business — Our Customers — Our five largest customers" in this document; and (ii) increased demand and needs for our process burners which is consistent to the market growth of process burners used in petroleum refinery and petrochemical operation from approximately RMB835.2 million in 2022 to approximately RMB934.3 million in 2023.

Decrease of sales of heat exchangers for the year ended 31 December 2023

Our further decrease of revenue from sales of heat exchangers to approximately RMB33.4 million for the year ended 31 December 2023 was mainly due to the fact that we have received a significant contract of sales of process burners from Customer G in 2022. While the production and manufacturing procedures of process burners and heat exchangers are within the same production facilities at Jinxin Road, we have focused our effort and resources for our on-going contracts with Customer G for process burners and obtained less contracts for heat exchangers, resulting in the decrease of sales of heat exchangers during the year ended 31 December 2023.

Installation services

During the Track Record Period, our Group also provided installation services to our customers under our manufacturing and sale of equipment. Such revenue accounted for approximately 0.9%, 0.9% and nil of our total revenue for the years ended 31 December 2021, 2022 and 2023, respectively.

Our installation services are part and parcel of our manufacturing and sale of equipment as we provide such services to our customers under manufacturing and sale of equipment business. Our Group, upon requests, provides installation services for the equipment manufactured by us and/or ancillary facilities such as platforms and escalators, mechanical erection work and electrical erection work to our customers, by leveraging our industry knowledge. We typically outsource the installation services to third-party installation companies. The movement of our revenue from provision of installation services are not directly align with the movement of revenue from the manufacturing and sale of equipment as not all of our customers shall engage us for installation services.

For the year ended 31 December 2021, revenue from provision of installation services of approximately RMB2.2 million were solely derived from Guizhou Jinze. For the year ended 31 December 2022, revenue from provision of installation services of approximately RMB3.8 million were derived from three customers, mainly consisted of Guizhou Jinze and Customer E. All of these relevant revenue were related to the provision of installation services for equipment manufactured by us only under the manufacturing and sale of equipment.

Revenue by contract types

The following table sets out a breakdown of our revenue by contract types during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Equipment-related contracts	236,542	95.4	404,148	96.4	535,444	98.4
Parts and components contracts	11,502	4.6	14,925	3.6	8,685	1.6
Total	248,044	100.0	419,073	100.0	544,129	100.0

Our sale contracts can be broadly classified as (i) equipment-related contracts which include sales of equipment and related parts and components and provision of installation services in one contract as provision of installation services are part and parcel of our manufacturing and sale of equipment; and (ii) parts and components contracts which include sales of parts and components standalone in one contract. During the Track Record Period, our Group's revenue was substantially derived from our equipment-related contracts, which accounted for approximately 95.4%, 96.4% and 98.4% of our total revenue, respectively. On a much smaller scale, our revenue from parts and components contracts accounted for approximately 4.6%, 3.6% and 1.6% of our total revenue for the years ended 31 December 2021, 2022 and 2023, respectively.

The following table sets forth a breakdown of revenue contribution from equipment-related contracts undertaken by range of revenue recognised during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Number of contracts	*RMB'000*	*Number of contracts*	*RMB'000*	*Number of contracts*	*RMB'000*
Revenue recognised						
Above RMB10 million	3	48,178	10	225,467	11	323,641
Above RMB5 million to RMB10 million	6	39,191	7	49,725	7	54,265
Above RMB1 million to RMB5 million	47	111,126	48	105,126	54	120,985
RMB1 million and below	123	38,047	93	23,830	130	36,553
Total	179	236,542	158	404,148	202	535,444

During the Track Record Period, our Group undertook 179, 158 and 202 equipment-related contracts which contributed revenue to the corresponding years, respectively. Average revenue recognised per equipment-related contract (calculated by total revenue derived from equipment-related contracts over the total number of equipment-related contracts in the year) was approximately RMB1.3 million, RMB2.6 million and RMB2.7 million for the years ended 31 December 2021, 2022 and 2023, respectively. Such overall increment illustrated that we had undertaken contracts with larger scale and larger awarded contract sum during the Track Record Period. This is consistent to the increase of the number of equipment-related contracts award and the corresponding aggregate awarded contract sum (exclusive of VAT) throughout the Track Record Period. Our Group was awarded with 190, 190 and 154 equipment-related contracts, respectively, with aggregate awarded contract sum (exclusive of VAT) of approximately RMB322.5 million, RMB628.3 million and RMB497.2 million, respectively, for the years ended 31 December 2021, 2022 and 2023. Details of the number of equipment-related contracts awarded to us during the Track Record Period and corresponding awarded contract sum are disclosed in section headed "Business — Our Contracts — Equipment-related contracts awarded to our Group during the Track Record Period and up to the Latest Practicable Date".

According to F&S Report, our pricing and charging basis of our petroleum refinery and petrochemical equipment during the Track Record Period is generally in line with the market players of similar product category in the PRC. As such, our Directors considered that the fluctuation of our overall revenue during the Track Record Period was mainly due to the increase in the number of sizeable contracts tendered and completed during the Track Record Period.

Revenue by customer type

The table below sets out the breakdown of revenue by customer type during the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Owners of production facilities	169,053	68.2	384,300	91.7	480,823	88.4
Third-party contractors	40,146	16.2	30,117	7.2	46,753	8.6
Equipment manufacturers	34,713	14.0	3,762	0.9	16,224	3.0
Others[(1)]	4,132	1.6	894	0.2	329	—
Total	248,044	100.0	419,073	100.0	544,129	100.0

Note:

(1) Others mainly consist of sale of equipment to trading companies and a research centre during the Track Record Period, which our Directors consider this represented an insignificant part of our total revenue. For details, please refer to section headed "Business — Our Customers — Our sales with trading companies and a research centre during the Track Record Period."

During the Track Record Period, owners of production facilities and third-party contractors are our major customer types, which, in aggregate, accounted for approximately 84.4%, 98.9% and 97.0%, respectively, of our total revenue.

Revenue from sales to owners of production facilities

Our largest customer type is owners of production facilities, which accounted for approximately 68.2%, 91.7% and 88.4%, respectively, of our total revenue for the years ended 31 December 2021, 2022 and 2023. We recorded an increase of revenue from owners of production facilities from approximately RMB169.1 million for the year ended 31 December 2021 to approximately RMB384.3 million for the year ended 31 December 2022. Such increase was consistent to our increased revenue from Customer A and Customer B, being owners of production facilities and our five largest customers for each of the years ended 31 December 2021 and 2022. We recorded total revenue from Customer A and Customer B of approximately RMB68.6 million and RMB273.6 million, respectively, representing approximately 40.6% and 71.2% of total revenue from owners of production facilities, respectively, for the years ended 31 December 2021 and 2022. Our Directors consider that such increase was driven by the increase in customer's demand for our products used for the construction of refinery and chemical plants as well as upgrading of existing structure of their production facilities, which also adhered to the PRC Government's promotion of high quality development of the petroleum refinery and petrochemical industry, and acceleration of the transformation of the structure of the industry under "Development Guidance of Petroleum and Petrochemical Industry in 14th Five-Year Period" (石油和化學工業"十四五"發展指南) in 2021.

We recorded a further increase of revenue from owners of production facilities by approximately RMB96.5 million to approximately RMB480.8 million for the year ended 31 December 2023 as compared to that of 2022. Such increase was a combining result of (i) increased sale orders and revenue from our certain five largest customers for 2023, such as Customer H, Customer I and Customer J, who are also major market participants in the petroleum refinery and petrochemical industry in the PRC. We have recorded total revenue from these three customers of approximately RMB146.1 million for the year ended 31 December 2023, representing approximately 26.9% of our revenue from owners of production facilities; (ii) completion of sales with Customer G, an overseas customer and our second largest customers for 2023, for the construction of a chemical complex located in Russia. We recorded revenue from Customer G of approximately RMB62.5 million, accounting for approximately 13.0% of our revenue from owners of production facilities; and (iii) partially offset by the overall decrease in revenue from Customer A and Customer B of approximately RMB66.6 million for the year ended 31 December 2023 as compared to corresponding period in 2022. However, Customer A and Customer B remained contributed significant revenue to our Group of approximately RMB207.1 million, in aggregate, accounting for approximately 43.1% of our revenue from owners of production facilities for the year ended 31 December 2023.

Revenue from sales to third-party contractors

Third-party contractors were our second largest customer type during the Track Record Period, which accounted for approximately 16.2%, 7.2% and 8.6%, respectively, of our revenue for the years ended 31 December 2021, 2022 and 2023. Our sales to third-party contractors decreased by approximately 25.0% or RMB10.0 million from approximately RMB40.1 million for the year ended 31 December 2021 to approximately RMB30.1 million for the year ended 31 December 2022. Our sales to third-party contractors increased by approximately 55.5% or RMB16.7 million to approximately RMB46.8 million for the year ended 31 December 2023.

The drop of revenue from third-party contractors during the year ended 31 December 2022 was mainly attributable to the decrease in sales to Customer C, being a subsidiary of a state-owned enterprise in the PRC principally engaged in design, procurement and construction for coal chemical and petrochemical equipments, with revenue decreased from approximately RMB11.3 million for the year ended 31 December 2021 to approximately RMB0.1 million for the year ended 31 December 2022. Such decrease in revenue is partially offset by increase in revenue from Customer M, one of the largest EPC contractors in the petroleum refinery and petrochemical industry in the PRC, of approximately RMB9.7 million for the year ended 31 December 2022. Our sales to third-party contractors increased to approximately RMB46.8 million for the year ended 31 December 2023, mainly due to further increase of sales and revenue from Customer M during the year ended 31 December 2023. We recorded revenue from Customer M of approximately RMB21.3 million during the year ended 31 December 2023, which accounted for approximately 45.5% of our revenue from third-party contractors in 2023.

Revenue from sales to equipment manufacturers

Our revenue from equipment manufacturers decreased from approximately RMB34.7 million for the year ended 31 December 2021 to approximately RMB3.8 million for the year ended 31 December 2022, which was mainly attributable to the decrease in revenue from Ningbo Zhongneng as a result of completion of sale in 2021 with revenue recognised of approximately RMB23.7 million and we did not receive new sales orders from Ningbo Zhongneng in 2022. Our revenue from equipment manufacturers increased to approximately RMB16.2 million for the year ended 31 December 2023, mainly because we have completed sales contracts with relatively higher contract sum.

Cost of sales

Our cost of sales comprises (i) materials and components used; (ii) outsourcing service fees; (iii) direct labour costs; (iv) taxes and levies; (v) royalty fee; and (vi) manufacturing overhead which mainly included electricity and fuel, repair and maintenance, depreciation of property, plant and equipment related to our productions, production safety cost and others. Materials and components used and direct labour costs represent a significant portion of our cost of sales, which in aggregate accounted for approximately 81.7%, 85.2% and 85.6% of our total cost of sales for the years ended 31 December 2021, 2022 and 2023, respectively.

The table below sets out a breakdown of our cost of sales for the Track Record Period:

	Year ended 31 December					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Materials and components used	135,513	76.5	232,750	81.4	289,608	82.1
Outsourcing service fees	16,190	9.2	23,133	8.1	29,883	8.5
Direct labour costs	9,235	5.2	10,945	3.8	12,338	3.5
Taxes and levies	3,766	2.1	4,244	1.5	5,018	1.4
Royalty fee	573	0.3	467	0.2	—	—
Manufacturing overhead	11,869	6.7	14,518	5.0	15,734	4.5
Total	177,146	100.0	286,057	100.0	352,581	100.0

Materials and components used

Our materials and components used mainly represent purchase cost of steel materials and components. Our materials and components used as a percentage of our cost of sales remained relatively stable at approximately 76.5%, 81.4% and 82.1%, respectively, for the years ended 31 December 2021, 2022 and 2023.

We consider that our cost of materials and components used fluctuated with the price of steel plates in the PRC as the key materials procured by us are steel materials, such as steel plates and steel pipes. According to the F&S Report, steel price is mainly influenced by the supply and demand level and government policies and is likely to fluctuate in the future. The price index of overall steel plate in China increased significantly during the year ended 31 December 2021, mainly resulted from (i) the sharp rise in the prices of raw materials of steel, such as iron ore and coking coal and iron ore has accounted for over 80% of the cost breakdown of steel products; (ii) increase in the demand of steel used in the construction industry and various infrastructures, along with the economy's recovery; and (iii) the implementation of certain government policies by mid of 2021, such as Adjusting the Customs Tariff Commission of the State Council stated that the import and export of steel tariff adjustment policy with an aim to guide the steel industry to reduce crude steel production; and leading to the rapid increase of steel price. The price index of overall steel plate hit the highest (between 2019 and 2023) of 157.7 in September 2021, dropped to 133.2 in May 2022 and maintained a decreasing trend to 112.9 in December 2023 as a result of high inventory level. For details of the fluctuation of price index of overall steel plate in China, see "Industry Overview — Major Cost Analysis of Petroleum Refinery and Petrochemical Equipment Market — Steel materials" to this document.

Our materials and components used increased by approximately RMB97.3 million or 71.8% from approximately RMB135.5 million for the year ended 31 December 2021 to approximately RMB232.8 million for the year ended 31 December 2022, which was largely aligned our revenue growth of approximately 69.0% from approximately RMB248.0 million for the year ended 31 December 2021 to approximately RMB419.1 million for that of 2022.

Our materials and components used further increased by approximately 24.4% or RMB56.8 million from approximately RMB232.8 million for the year ended 31 December 2022 to approximately RMB289.6 million for the same period of 2023, which aligned our revenue growth of approximately 29.8% in 2023; and partially offset by the gradual decrease in steel price during the year.

Sensitivity analysis

The following sensitivity analysis illustrates the impact of hypothetical fluctuation in price index of overall steel plate in China on our profit before tax during the Track Record Period. The hypothetical fluctuation rates are set at 6.0% and 13.9%, with reference to the range of historical price index of overall steel plate in China from 2021 to 2023 as show in the F&S Report, which are considered to be reasonable for the purpose of this sensitivity analysis:

	+/–6.0%	**+/–13.9%**
	RMB'000	*RMB'000*
Changes in profit before tax		
Year ended 31 December 2021	–/+8,131	–/+18,836
Year ended 31 December 2022	–/+13,965	–/+32,352
Year ended 31 December 2023	–/+17,376	–/+40,256

Direct labour costs

Direct labour costs comprised salaries and welfares of our employees involved in our manufacturing and production process. For the year ended 31 December 2021, 2022 and 2023, direct labour costs amounted to approximately RMB9.2 million, RMB10.9 million and RMB12.3 million, representing approximately 5.2%, 3.8% and 3.5% of the total cost of sales for the corresponding periods, respectively. The overall increase of our direct labour costs during the Track Record Period was mainly attributable to the increase in the headcount of our production team and its average salary level during the Track Record Period, which reflected our revenue growth.

Sensitivity analysis

The following sensitivity analysis illustrates the impact hypothetical fluctuation in direct labour costs on our profit before tax during the Track Record Period, assuming the fluctuation of our direct labour costs to be 5% and 10% during each of the year ended 31 December 2021, 2022 and 2023:

	+/–5%	**+/–10%**
	RMB'000	*RMB'000*
Changes in profit before tax		
Year ended 31 December 2021	–/+462	–/+924
Year ended 31 December 2022	–/+547	–/+1,095
Year ended 31 December 2023	–/+617	–/+1,234

Outsourcing service fees

Outsourcing service fees represented cost for engaging third-party for installation, transportation for delivery of our equipment to customers, and consulting services for conducting project site visits, technical study and cost estimation study to assist our Group on preparing tender documents. Our outsourcing service fees amounted to approximately RMB16.2 million, RMB23.1 million and RMB29.9 million, respectively, representing approximately 9.2%, 8.1% and 8.5% of our total cost of sales for the year ended 31 December 2021, 2022 and 2023, respectively.

The increase of outsourcing service fees by approximately RMB6.9 million or 42.6% for the year ended 31 December 2022 as compared with that of 2021, was mainly due to increase in transportation cost and installation cost which was in line with our revenue growth. Our outsourcing service fees increased by approximately RMB6.8 million or 29.4% for the year ended 31 December 2023 as compared with that of 2022, was mainly attributable to increase in transportation cost and consultancy fee which was in line with our revenue growth during the year; and partially offset by the decrease in third-party installation fee of approximately RMB2.1 million for the year ended 31 December 2022 while no such fee incurred for the year ended 31 December 2023.

Taxes and levies

Taxes and levies primarily represented various kinds of government levies or taxes such as real estate tax (房產稅), education surtax (教育附加稅), urban construction tax (城市建設維護稅), tenure tax (土地使用稅) and stamp duty (印花稅), amounted to approximately RMB3.8 million, RMB4.2 million and RMB5.0 million, representing approximately 2.1%, 1.5% and 1.4% of our total cost of sales for the years ended 31 December 2021, 2022 and 2023, respectively.

Gross profit and gross profit margin

Our Group's pricing strategy is principally based on the estimated cost, with a markup to reflect a margin reasonable for the industry, adjusted by other factors such as market demand, level of specification and/or customisations required by our customers, contract sum and scale, and availability of our capacity, in terms of manpower and financial resources. We typically enter into fixed price contracts with our customers.

The following table sets forth our gross profit and gross profit margin by business activities for the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Gross profit (loss)	Gross profit margin	Gross profit (loss)	Gross profit margin	Gross profit (loss)	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Manufacturing and sale of equipment						
SRU and VOCs incineration equipment	24,578	24.2	22,782	31.3	24,371	31.6
Catalytic cracking equipment	18,924	29.9	79,921	31.8	104,818	32.8
Process burners	15,778	52.6	15,377	34.1	53,966	47.2
Heat exchangers	11,868	23.3	14,881	32.5	8,393	25.1
Subtotal	71,148	28.9	132,961	32.0	191,548	35.2
Installation services	(250)	(11.1)	55	1.5	—	—
Total/overall	70,898	28.6	133,016	31.7	191,548	35.2

During the Track Record Period, we recorded total gross profit of approximately RMB70.9 million, RMB133.0 million and RMB191.5 million, respectively, and overall gross profit margins of approximately 28.6%, 31.7% and 35.2% for the years ended 31 December 2021, 2022 and 2023, respectively.

Manufacturing and sale of equipment

Our gross profit for manufacturing and sale of equipment increased from approximately RMB71.1 million for the year ended 31 December 2021 to approximately RMB133.0 million for the year ended 31 December 2022, representing an increase of approximately RMB61.9 million or approximately 87.1%, which largely aligned our growth in such revenue by approximately RMB169.5 million or 69.0% and resulted from the gradual decrease of steel price from October 2021 due to the high inventory levels and insufficient demand in PRC according to the F&S Report.

Our Group's gross profit for manufacturing and sale of equipment increased from approximately RMB133.0 million for the year ended 31 December 2022 to approximately RMB191.5 million for the year ended 31 December 2023, representing an increase of approximately RMB58.5 million or 44.0%, which was mainly attributed to (i) our growth of revenue for manufacturing and sale of equipment by approximately RMB128.8 million or 31.0% and (ii) a relatively lower materials and components cost as a result of the continuous decrease of steel price since mid of 2022 and during the year ended 31 December 2023.

Our Group's gross profit margin for manufacturing and sale of equipment increased from approximately 28.9% for the year ended 31 December 2021 to approximately 32.0% for the year ended 31 December 2022. Such improvement was mainly attributable to the slight increase of gross profit margin for sales of catalytic cracking equipment from approximately 29.9% for the year ended 31 December 2021 to approximately 31.8% for the year ended 31 December 2022; while revenue contribution from sales of catalytic cracking equipment to total revenue of the year increased from approximately 25.5% for the year ended 31 December 2021 to approximately 60.0% for the year ended 31 December 2022; the gross profit margin derived from sales of SRU and VOCs incineration equipment and heat exchangers increased by approximately 7.1 percentage points and 9.2 percentage points, from approximately 24.2% and 23.3% in 2021 to approximately 31.3% and 32.5% in 2022, respectively; while such increase was partially offset by decrease of gross profit margin for sales of process burners from approximately 52.6% for the year ended 31 December 2021 to approximately 34.1% for the year ended 31 December 2022.

Discussion on gross profit margin for the year ended 31 December 2022 by product categories

SRU and VOCs incineration equipment

Our gross profit margin for sales of SRU and VOCs incineration equipment of approximately 24.2% for the year ended 31 December 2021 was lower than that of 2022 of approximately 31.3%, which was mainly attributable to sale contracts with Anqing branch office of Customer A during the year ended 31 December 2021; with a relatively lower gross profit margin of approximately 22.7% and the aggregated sales accounted for approximately 17.1% of our total revenue from sales of SRU and VOCs incineration equipment in 2021. This relatively lower gross profit margin was primarily due to the facts that we strategically lowered our contract price in order to secure the contracts after considering the contract sum, scale and the future business opportunities upon Customer A's ongoing investment in

Anqing and Yangzi refining upgrading projects. Our gross profit margin for sales of SRU and VOCs incineration equipment increased to approximately 31.3% for the year ended 31 December 2022, which was mainly attributable to the decrease in cost of materials and components, in particular, steel price as a result of the decrease in price index of overall steel plates in the PRC during the year.

Catalytic cracking equipment

Our gross profit margin for sales of catalytic cracking equipment remained stable at approximately 29.9% and 31.8%, respectively, for the years ended 31 December 2021 and 2022. Our gross profit and gross profit margin for sales of catalytic cracking equipment for the year ended 31 December 2022 was mainly attributed to (i) revenue from Anqing branch office of Customer A, for the sales of catalytic cracking equipment amounted to approximately RMB109.9 million with a gross profit margin of approximately 30.6%; and (ii) revenue from Yangzi branch office of Customer A for the sales of catalytic cracking equipment amounted to approximately RMB76.8 million, with a gross profit margin of approximately 31.3%.

Process burners

Our gross profit margin for sales of process burners decreased by approximately 18.5 percentage points from approximately 52.6% for the year ended 31 December 2021 to approximately 34.1% for the year ended 31 December 2022. The relatively higher gross profit margin for 2021 was mainly attributable to the increase in sales from an overseas customer located in Russia (the "**Russian Customer**") who we have charged a relatively higher gross profit margin. To the best knowledge of our Directors, such customer is principally engaged in engineering, manufacturing, supply and installation of process equipment operating at high temperature in different industries, such as oil refining and petrochemistry with over 20 years of history. Our Group became acquainted with this customer in around early 2020 through the referral of our sale personnel who is responsible for overseas business of our Group. According to F&S Report, the overseas market is comparatively less competitive in pricing as compared with the domestic market in the PRC because China offer competitive manufacturing cost due to economies of scale and the country's diverse range of manufacturing capabilities which catering to the specific needs and requirements of customers. This also allowed overseas customers to access cost-effective solutions and a wider variety of equipment options compared to sourcing locally in their countries. Hence, we had offered a relatively higher contract price, resulting in a higher gross profit margin from those sales with overseas customers as compared to our other customers in the PRC. Revenue from this customer amounted to approximately RMB6.8 million, accounting for approximately 22.8% of our revenue from sales of process burners for the year ended 31 December 2021. Followed by the completion of sale contracts with the Russian Customer in 2021, our Group only recorded relevant revenue of approximately RMB0.2 million for the year ended 31 December 2022. Hence, our gross profit margin for sales of process burners decreased in 2022.

Heat exchangers

Our gross profit margin for sales of heat exchangers was approximately 23.3% for the year ended 31 December 2021, which was relatively lower than that of approximately 32.5% for 2022, primarily attributable to sales of heat exchangers to Ningbo Zhongneng was of a relatively lower gross profit margin with revenue of approximately RMB23.7 million, accounting for approximately 46.7% of our revenue from sales of heat exchangers during the year ended 31 December 2021. Such relatively lower gross profit margin was primarily resulted from actual costs incurred for this contract exceed the estimated costs we offered to Ningbo Zhongneng as we generally entered into fixed-price contracts and there is time difference between the signing of sale contracts and the time we procured materials and components from our suppliers.

Our Group's gross profit margin for manufacturing and sale of equipment increased from approximately 32.0% for the year ended 31 December 2022 to approximately 35.2% for the year ended 31 December 2023. Such growth was mainly contributed by (i) slight increase of gross profit margin for sales of catalytic cracking equipment from approximately 31.8% for the year ended 31 December 2022 to approximately 32.8% for the year ended 31 December 2023; with revenue contribution of approximately 60.0% and 58.7% to our total revenue for the years ended 31 December 2022 and 2023, respectively; (ii) increase of gross profit margin for sales of process burners by approximately 13.1 percentage points from approximately 34.1% for the year ended 31 December 2022 to approximately 47.2% for the year ended 31 December 2023, while the revenue contribution from sales of process burners to total revenue increased from approximately 10.8% for the year ended 31 December 2022 to approximately 21.0% for the year ended 31 December 2023; and (iii) a relatively stable gross profit margin for sales of SRU and VOCs incineration equipment at approximately 31.3% and 31.6%, respectively for the years ended 31 December 2022 and 2023, with stable revenue contribution of approximately 17.4% and 14.2%, respectively, to our total revenue for the years ended 31 December 2022 and 2023.

Our relatively higher gross profit margin for the year ended 31 December 2023 was largely resulted from the overall decrease in cost of materials and components used as a percentage to our total revenue for manufacturing and sale of equipment. For the years ended 31 December 2022 and 2023, our cost of materials and components used as a percentage to our revenue for manufacturing and sale of equipment for the relevant period was approximately 56.0% and 53.2%, respectively. This decrease was mainly attributable to the continuous decreasing trend of the price index of overall steel plate in China from October 2021 and throughout the year of 2022 and 2023. Since the duration period of our contracts varies and may take up to three to 19 months to complete, thus, there will be time lag between the signing of our fixed-price sale contracts, when the price of the materials and components are usually determined and estimated; and the actual procurement of materials and components for productions. The price index of overall steel plate in China has reached its highest (between 2019 to 2023) at 157.7 in September 2021 and decreased to 133.2 in May 2022 and 112.9 in December 2023. As a result, we recorded an overall decrease in cost of materials and components used as a percentage to our revenue for manufacturing and sale of equipment and an increase in our gross profit margin for manufacturing and sale of equipment for the year ended 31 December 2023. For details of the fluctuation of price index of overall steel plate in China, see section headed "Industry Overview — Major Cost Analysis of Petroleum Refinery and Petrochemical Equipment Market — Steel materials" to this document.

Process burners

Gross profit for sales of process burners increased by approximately RMB38.6 million for the year ended 31 December 2023 with an improvement of relevant gross profit margin from approximately 34.1% for the year ended 31 December 2022 to approximately 47.2% for the same period in 2023. Such growth was mainly attributed to completion of sales of process burners to Customer G, an overseas customer and our second largest customer for 2023, who we have charged a relatively higher gross profit margin as the overseas market is comparatively less competitive in pricing as compared to the domestic market in the PRC according to the F&S Report. Revenue from Customer G for the year ended 31

December 2023 amounted to approximately RMB62.5 million with gross profit of approximately RMB32.9 million, accounting for approximately 54.7% and 60.9% of our revenue and gross profit derived from sales of process burners for the relevant period.

Installation services

For the year ended 31 December 2021, we recorded gross loss for installation services of approximately RMB0.3 million and resulting in negative gross profit margin of approximately 11.1%. For the year ended 31 December 2022, we recorded minimal gross profit of approximately RMB55,000 and gross profit margin of approximately 1.5%. Our Group typically outsources installation works to third party sub-contractors and we provide quotation to our customers after obtaining price quotation from our third party installation companies. We shall set out the stand-alone price of our equipment and fee charged for installation services in our sales contracts and we normally charge little or no profit for installation services as our Directors consider that the pricing of contract for sale of equipment and provision of installation services are determined as a whole of the project and our profit shall typically come from our sale of equipment itself. The price of our equipment may include our margin, which compensate the other costs associated with producing the equipment and this is a market practice as confirmed by F&S. The relevant gross loss for the year ended 31 December 2021 was mainly attributed to the additional variation works to be performed by our subcontractor while we have entered into fixed-price sale contracts with our customers. However, our Directors consider such part of loss is immaterial and the contract as a whole of sale of equipment and provision of installation services recorded an overall gross profit.

The following table sets forth our gross profit and gross profit margin by contract types for the Track Record Period:

	Year ended 31 December					
	2021		**2022**		**2023**	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Equipment-related contracts	63,908	26.9	123,663	30.6	184,723	34.5
Parts and components contracts	6,990	60.8	9,353	62.7	6,825	78.6
Total/overall	70,898	28.6	133,016	31.7	191,548	35.2

During the Track Record Period, gross profit margin of our equipment-related contracts was approximately 26.9%, 30.6% and 34.5%, respectively, which is comparatively lower than that of our parts and components contracts of approximately 60.8%, 62.7% and 78.6%, respectively. Our Directors considered that since our parts and components are relatively standardised piece of products and involved in smaller contract amounts as compared to equipment-related contracts, hence, we are able to charge a relatively higher price with higher gross profit margin. According to F&S, it is in line with the market practice that gross profit margin of sale of parts and components standalone are relatively higher than that of sale of equipment.

The following table sets forth our gross profit and gross profit margin by customer types for the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Owners of production facilities	49,467	29.3	120,135	31.3	173,232	36.0
Third-party contractors	14,330	35.7	11,085	36.8	15,024	32.1
Equipment manufacturers	4,937	14.2	1,263	33.6	3,054	18.8
Others	2,164	52.4	533	59.6	238	72.3
Total/overall	70,898	28.6	133,016	31.7	191,548	35.2

Owners of production facilities

Following our revenue growth for sales to owners of production facilities for the year ended 31 December 2022, our gross profit increased from approximately RMB49.5 million for the year ended 31 December 2021 to approximately RMB120.1 million for the year ended 31 December 2022; and the relevant gross profit margin maintained at a similar level of approximately 29.3% and 31.3%, respectively.

Gross profit from sales to owners of production facilities increased by approximately RMB53.1 million to approximately RMB173.2 million for the year ended 31 December 2023, which aligned the increase of relevant revenue by approximately RMB96.5 million from approximately RMB384.3 million for the year ended 31 December 2022 to approximately RMB480.8 million for the year ended 31 December 2023, such that the gross profit margin increased by approximately 4.7 percentage points from approximately 31.3% for the year ended 31 December 2022 to approximately 36.0% for the year ended 31 December 2023. This increase was mainly attributed to (i) the relatively lower price index of overall steel plate for the year ended 31 December 2023 as compared to the same period of 2022 as explained above; and (ii) the completion of sales with Customer G, our second largest customer for 2023 with gross profit margin of over 50%.

Third-party contractors

Gross profit for sales to third-party contractors decreased by approximately RMB3.2 million from approximately RMB14.3 million for the year ended 31 December 2021 to approximately RMB11.1 million for the year ended 31 December 2022, which is generally in line with the decrease of revenue from third-party contractors for the years ended 31 December 2022. The gross profit margin for sales to third-party contractors maintained at a relatively stable level at approximately 35.7% and 36.8% for the years ended 31 December 2021 and 2022, respectively. Gross profit for sales to third-party contractors increased to approximately RMB15.0 million for the year ended 31 December 2023, which is in line with the relevant revenue growth during the year and the gross profit margin maintained relatively stable at approximately 36.8% and 32.1% for the years ended 31 December 2022 and 2023, respectively.

Equipment manufacturers

We recorded a relatively lower gross profit margin for sales to equipment manufactures of approximately 14.2% for the year ended 31 December 2021 which was mainly due to sales to Ningbo Zhongneng which we had recorded gross profit margin of around 8%, and revenue from Ningbo Zhongneng accounted for approximately 68.3% of revenue from equipment manufacturers during the year ended 31 December 2021. Such gross profit margin was attributable to the consultancy fee incurred and the increase in purchase cost of materials and components at the time we procured the materials for production as compared to our cost estimation.

In line with increased sales to equipment manufacturers for the year ended 31 December 2023, our corresponding gross profit also increased from approximately RMB1.3 million for the year ended 31 December 2022 to approximately RMB3.1 million for the same period in 2023. However, driven by sales of our equipment to a customer, which represented approximately 36.0% of revenue from sales to equipment manufacturers for the year ended 31 December 2023 with lower gross profit margin. Such relatively lower gross profit margin was primarily because we have offered a competitive price in securing the contract after considering the contract sum and actual costs incurred for the equipment contract exceed the estimated costs we offered as stipulated in the fixed-price contracts. As a result, the gross profit margin generated from sales to equipment manufacturers decreased from approximately 33.6% for the year ended 31 December 2022 to approximately 18.8% for the same period in 2023.

Others

During the Track Record Period, gross profit margin derived from sales to others which mainly included trading company customers and a research centre, is relatively higher than that of sales to other customer types. To our Directors' best knowledge after making reasonable enquiries, our trading company customers and a research centre generally purchase our equipment, and parts and components with a relatively smaller contract sum. Details of our major trading company customers are disclosed in section headed "Business — Our Customers — Our sales with trading companies and a research centre during the Track Record Period" in this document. Our gross profit margin for sales to others is generally higher than that of sales to our other customer types during the Track Record Period because the proportion of gross profit generated from sales of parts and components was relatively higher in sales to others, and the overall gross profit margin for parts and components contracts was over 60% throughout the Track Record Period. Gross profit margin for sales to others increased from approximately 52.4% for the year ended 31 December 2021 to approximately 59.6% for the year ended 31 December 2022, was mainly due to the increase of sale of parts and components to trading company customers as a percentage of total sales to others for the year, such that, over 70% of sales to others for the year ended 31 December 2022 is contributed from sales of parts and components while only around 15% in the corresponding year of 2021. For the year ended 31 December 2023, we recorded a further decrease in sales to others with gross profit margin of approximately 72.3% which was because a majority of sales are related to sales of parts and components only.

According to F&S, profit margin for the sale of parts and components is often higher than that of sale of equipment due to the production of parts and components benefits from economies of scale where manufacturers can produce these items in relatively large quantities, leading to lower production costs per unit. In contrast, the sale of tailored-made equipment involves higher production costs due to customisation and specialised engineering. The customisation process requires more time, resources, and expertise, which contribute to increased production costs and relatively lower profit margin as compare to parts and components.

Other income and gains, net

Our other income and gains, net mainly consist of government grants, litigation compensation, rental income, net, interest income and gain on disposal of wealth investment products. The following table sets forth a breakdown of our other income and gains, net for the Track Record Period:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Government grants	4,153	713	1,097
Litigation compensation	3,100	—	—
Rental income, net	338	343	325
Interest income	286	242	576
Others[(1)]	700	526	2,357
Total	8,577	1,824	4,355

Note:

(1) Others mainly include net foreign exchange gain/loss, sale of scrap materials and other income from provision of design and testing services.

Government grants

Our government grants mainly represent the subsidies and incentives from local government authorities in China, in connection with high-tech enterprise development support, encouragement on research and development investment, innovation capability and patents invention; and in recognition of our contribution to local economic development and social stability. The establishment of the incentive programs and grant of subsidies are subject to the government's discretion and the receipt of such subsidies is thus unpredictable. Our eligibility for government grants is dependent on a variety of factors, including the qualification of a high-tech enterprise, annual research and development expenses, taxation contribution for the past years and etc. There are no unfulfilled conditions relating to such government subsidies and incentives recognised during the Track Record Period. All government grants received are provided typically on one-off and discretionary basis and caused the fluctuations in the amount of other income and gains, net.

The table below sets forth a breakdown of our government grants during the Track Record Period:

Nature/Project	Governmental authority	Conditions for obtaining subsidy	Year ended 31 December 2021 *RMB'000*	2022 *RMB'000*	2023 *RMB'000*
Little Giant Training Enterprises (小巨人培育達標企業)	Luoyang City People's Government (洛陽市人民政府)	The incentives were issued since we were recognised as Little Giant Training Enterprises (小巨人培育達標企業) and subsequently evaluated as good performance and satisfy the financial requirements.	1,600	—	—
Supporting funds for stabilising employment	Luoyang Ministry of Human Resources and Social Security (洛陽市人力資源和社會保障局)	This subsidy was to encourage our effort of stabilising employment and employment contribution.	—	98	82
Patent inventions project [(1)]	Administration for Market Regulation of Luoyang City (Intellectual Property Bureau) 洛陽市市場監督管理局 (知識產權局)	This subsidy was to improve intellectual property creation, utilisation, protection and management, pursuant to Measures for the Management of Special Funds for Intellectual Property Rights in Luoyang City (洛陽市知識產權專項資金管理辦法) and this subsidy was issued to us based on our successful registration of invention patents during the relevant application periods.	23	5	30
Subsidies/fundings for research and development of enterprises [(2)]	Finance Bureau of Henan Province (河南省財政廳), Science and Technology Department of Henan Province (河南省科學技術廳), Finance Department of Luoyang National New & High Tech Industry Development Zone (洛陽高新區財政金融), Science and Technology Department of Luoyang National New & High Tech Industry Development Zone (洛陽高新區科技局), and Shanghai Municipal People's Government (上海市人民政府)	These subsidies/fundings were to encourage our Group's past or present effort in research and development investment. These subsidies/ fundings were issued to us based on our investments and expenditure in research and development projects.	1,410	300	658

Nature/Project	Governmental authority	Conditions for obtaining subsidy	Year ended 31 December		
			2021	2022	2023
			RMB'000	*RMB'000*	*RMB'000*
Special Fund for Major Science and Technology Innovation Project in 2021 (2021年重大科技創新事項) (3)	Luoyang Science and Technology Bureau (洛陽市科學技術局)	This subsidy was issued based on our research and development and commercialisation project of condensed smoke removal technology (凝聚式煙羽脫除技術及裝備).	1,000	—	—
Special funds for technology-based small and medium-sized enterprises (3)	Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會)	This subsidy was to support private enterprises, especially small and medium-sized enterprises, to pursue innovation-driven development. This subsidiary was issued based on our research and development project on harmless recovery and treatment system of industrial waste gas hydrogen sulphide (工業廢氣硫化氫無害化回收處理系統).	—	100	—
Special funds for postdoctoral research project fund (博士後科研項目啟動經費) (3)	Hanan Provincial Postdoctoral Management Committee (河南省博士後管理委員會)	This subsidy was issued based on our research project of active control mechanism of micro-scale swirl combustion instability based on local heat release enhancement in wall concave cavity (基於壁面凹腔局部釋熱增強的微尺度旋流燃燒不穩定性主動調控機理研究).	—	—	220
First quarter of principal financial incentive funds in 2022	Department of Industry and Information Technology of Henan Province (河南省工業和信息化廳) and Finance Bureau of Henan Province (河南省財政廳)	This subsidy was to support full production of industrial enterprises above designated size in the first quarter of 2022, and supported enterprises to resume work and production, reach production capacity and achieve efficiency. The subsidy was issued to us since we have satisfied the operational requirements.	—	100	—
Others	Various governmental authority		120	110	107
Total			4,153	713	1,097

Notes:

(1) Our Group is engaged in the design, manufacture and sale of petroleum refinery and petrochemical equipment in the PRC. We believe that our strong research and development and design capabilities contributes significantly to our Group's success, involving the registration of patents invented by us. Hence, our Directors considered that the subsidy related to patent invention were generated within our Group's ordinary and usual course of business.

(2) We incurred significant research and development expenses from time to time during the Track Record Period and our Directors consider that subsidies from the government in relation to our historical effort and expenses in research and development projects or technology were generated within the our Group's ordinary and usual course of business.

(3) Our Group occasionally applies special fundings from the relevant government authorities for research and development expenses for a specific project or technology and our Directors consider that the resulting fundings from the authorities were generated within our ordinary and usual course of business on the basis that (i) our Group regularly participates in research and development projects and received grants and subsidies throughout the Track Record Period, which indicates that such grants and subsidies are considered to be a typical and regular part of our business operations; and (ii) petroleum refinery and petrochemical equipment manufacturing involves significant technological advancement and innovations. The government fundings for research and development projects are specifically intended to support our progress of research and development projects and commercialisation of new and advanced petroleum refinery and petrochemical equipment for sale in our business and also aligns with the industry's focus on innovation.

Litigation compensation

Litigation compensation received during the year ended 31 December 2021 were related to an intellectual property infringement proceeding, of which our Group was the plaintiff. On 25 June 2018, prior to the Track Record Period, we filed a claim against Luoyang Mingyuan Petrochemical Technology Co., Ltd. (the "**Luoyang Mingyuan**") and our 10 ex-employees who resigned during the period of 2013 to 2016, in respect of infringement of business secrets and technical secrets of a utility model, namely "a kind of burner (一種燃燒器)" (Application no. 201420705855.X) for an amount of RMB8.0 million. Our Directors confirmed that the aforementioned patent, which is protecting the manufacturing, selling and development and improvement of our one specific type of burner, is not the key process for the production and development of burners by our Company and the infringement of the patent did not have a material impact on our business. Luoyang Mingyuan is a privately-owned PRC company established in March 2014 by our ex-employees with the business scope includes research and development and design and sale of petrochemical equipment and component and environmental protection equipment. On 8 September 2021, the Supreme People's Court of the PRC in favour of us and held that (i) Luoyang Mingyuan and the relevant parties immediately stop the behaviour of infringing on the technical secrets of Luoyang Ruichang and shall not implement the aforementioned patent by themselves or permit others within the validity period of the patents; (ii) Luoyang Mingyuan compensated Luoyang Ruichang for economic losses of RMB3.0 million (including RMB2.0 million for infringement of business secrets and RMB1.0 million for infringement of technical secrets) and reasonable expenses for rights protection of RMB$0.1 million; (iii) the relevant ex-employees assumes joint and several liability for the above compensation amount of RMB0.8 million, in aggregate. Such compensation amount of RMB3.9 million, in aggregate, was determined by the Supreme People's Court after considering the commercial value of the technical secret, the cost of research and development, the benefits obtained from implementation of the technical secret, the loss of competitive advantage of Luoyang Ruichang due to the disclosure of technical secrets, the reasonable expenses incurred by Luoyang Ruichang in this proceeding and other factors. These compensation have been fully received during the years ended 31 December 2020 and 2021. The related litigation expenses incurred for this proceeding was approximately RMB3.0 million.

Except for above and Luoyang Mingyuan being the co-owner of certain patents of our Group (details of which are disclosed in section headed "Business — Intellectual Property — Co-owned patents" in the document), there has been no other past or present relationship between the Luoyang Mingyuan and our Group, our Directors, our Shareholders or senior management during the Track Record Period and up to the Latest Practicable Date. As well, except as being our Group's employees prior to the Track Record Period, there have been no other past or present relationships between the natural person defendants, and our Group, our Directors, our Shareholders or senior management during the Track Record Period and up to the Latest Practicable Date.

Selling expenses

Our selling expenses mainly consist of staff costs, entertainment expenses, travelling and related expenses, promotional expenses and office expenses. The following table sets forth a breakdown of our selling expenses for the Track Record Period:

	Year ended 31 December					
	2021		**2022**		**2023**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	5,881	40.0	10,168	49.6	13,119	52.9
Entertainment expenses	5,503	37.4	6,870	33.5	5,691	22.9
Travelling and related expenses	1,635	11.1	1,562	7.6	3,727	15.0
Promotional expenses	302	2.1	339	1.7	281	1.1
Office expenses	227	1.5	320	1.6	461	1.9
Others[(1)]	1,160	7.9	1,247	6.0	1,524	6.2
Total	14,708	100.0	20,506	100.0	24,803	100.0

Note:

(1) Others mainly include bidding fees, depreciation, vocational training expenses and other expense arising from our selling activities.

For the years ended 31 December 2021, 2022 and 2023, our selling expenses amounted to approximately RMB14.7 million, RMB20.5 million and RMB24.8 million, respectively.

Our staff costs includes salaries, bonus and staff welfare for our sales team, increased from approximately RMB5.9 million for the year ended 31 December 2021 to approximately RMB10.2 million for the year ended 31 December 2022, which was mainly attributable to (i) the increase of headcount of Luoyang Ruichang and Shanghai Ruiqieer and general increase of the salary level of our sales team during the year; and (ii) increase of bonus awarded to our sales team in 2022 in recognition of our satisfactory business performance and which reflected our revenue growth for the year ended 31 December 2022. Our staff costs further increased to approximately RMB13.1 million for the year ended 31 December 2023, which was mainly attributable to (i) increase in headcount of our sales team for our expanded operation and (ii) increase in average salary and bonus during the year ended 31 December 2023.

Our entertainment expenses increased from approximately RMB5.5 million for the year ended 31 December 2021 to approximately RMB6.9 million for the year ended 31 December 2022; and decreased to approximately RMB5.7 million for the year ended 31 December 2023. Our Group generally incurred entertainment expenses to acquaint with new customers and maintain business relationships with our existing customers and suppliers. The fluctuation was generally in line with our growing operations and more expenses were incurred to maintain relationships with our business partners.

Our travelling and related expenses which mainly consisted of travelling and hotel accommodation expenses incurred by our sale team, was relatively stable at approximately RMB1.6 million and RMB1.6 million during the years ended 31 December 2021 and 2022, respectively. Such expenses increased to approximately RMB3.7 million for the year ended 31 December 2023 mainly due to more business trips of our sales personnel during the year ended 31 December 2023 as compared to the corresponding period in 2022 when travel restrictions and lockdown measures were in place.

Administrative expenses

Our administrative expenses mainly consist of salaries, bonus and welfare for our management and administrative staff, professional and consulting fee, depreciation and amortisation, office expenses, recruitment expenses, entertainment expenses, travelling and related expenses, patent expenses, training expenses, rental expenses and others. The following table sets forth a breakdown of administrative expenses for the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Staff costs	10,764	45.9	15,129	53.7	20,972	50.8
Professional and consulting fees	2,702	11.5	2,313	8.2	4,518	10.9
Depreciation and amortisation	3,560	15.2	3,519	12.5	5,621	13.6
Office expenses	1,526	6.5	1,637	5.8	2,817	6.8
Recruitment expenses	1,262	5.4	1,067	3.8	1,273	3.1
Entertainment expenses	690	2.9	698	2.5	1,068	2.6
Travelling and related expenses	592	2.5	598	2.1	1,098	2.7
Patent expenses	347	1.5	518	1.8	514	1.3
Training expenses	229	1.0	670	2.4	490	1.2
Rental expenses	406	1.7	315	1.1	15	—
Others[(1)]	1,397	5.9	1,708	6.1	2,893	7.0
Total	23,475	100.0	28,172	100.0	41,279	100.0

Note:

(1) Others mainly include bank charges, dismissal fee and other administrative expenses.

During the years ended 31 December 2021, 2022 and 2023, our administrative expenses amounted to approximately RMB23.5 million, RMB28.2 million and RMB41.3 million, respectively.

Our staff costs increased from approximately RMB10.8 million for the year ended 31 December 2021 to approximately RMB15.1 million for the year ended 31 December 2022, mainly due to (i) the increase of average salary level of our staff as a result of an increase of bonus of approximately RMB1.1 million awarded to administrative and management staff in recognition of our satisfactory business performance; and (ii) the increase in the number of our administrative staff in Shanghai Ruiqieer 13 as at 31 December 2021 to 18 as at 31 December 2022 with higher salary level. For the year ended 31 December 2023, our staff cost was approximately RMB21.0 million, representing an increase of approximately RMB5.9 million or 39.1% as compared to 2022, which was mainly due to increased number of administrative and supporting staff (including 17 trainees newly recruited during the year ended 31 December 2023) from around 48 by 2022 to around 62 by 2023; and increase in bonus paid to our staff.

Our office expenses was relatively stable at approximately RMB1.5 million and RMB1.6 million, respectively for the years ended 31 December 2021 and 2022. Our office expenses increased to approximately RMB2.8 million for the year ended 31 December 2023 and such growth was generally consistent to the increase of our administrative and supporting team and resulted from the release of travel restrictions and lockdown measures during the year ended 31 December 2023 while most of our administrative and supporting staff have been working from home during the lockdown period in 2022.

We recorded professional and consulting fees of approximately RMB2.7 million, RMB2.3 million and RMB4.5 million, respectively, during the Track Record Period. Our professional and consulting fees mainly consist of (i) legal service fee provided by law firms which are Independent Third Parties; (ii) accounting and auditing services provided by accounting firms which are Independent Third Parties; and (iii) other professional and consulting services mainly included consultation on software supporting service. The relatively higher professional and consulting fee for the year ended 31 December 2023 was mainly because we have incurred (i) legal fee of approximately RMB0.7 million for hiring legal counsels to pursue settlement with debtors and/or handle legal proceedings involving our suppliers; and (ii) approximately RMB0.2 million for consultation on ESG reporting.

Our depreciation and amortisation expenses mainly include depreciation and amortisation of our office buildings, motor vehicles and office equipment, which was at a relatively stable level during the Track Record Period.

Research and development expenses

Research and development expenses mainly consist of salaries and welfare for our research and development personnel, materials consumed for our research and development activities, depreciation and amortisation of our research facilities and testing fee. The following table sets forth a breakdown of our research and development expenses for the Track Record Period:

	Year ended 31 December					
	2021		2022		2023	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Staff costs	11,939	64.0	16,087	64.1	23,943	63.0
Materials consumed	4,223	22.6	5,568	22.2	6,874	18.1
Depreciation and amortisation	304	1.6	319	1.3	566	1.5
Technical and testing fee	1,017	5.5	2,017	8.0	4,654	12.3
Others[(1)]	1,175	6.3	1,093	4.4	1,926	5.1
Total	18,658	100.0	25,084	100.0	37,963	100.0

Note:

(1) Others mainly consist of office expenses, travelling and related expenses and other expenses.

We recorded research and development expenses of approximately RMB18.7 million, RMB25.1 million and RMB38.0 million during the years ended 31 December 2021, 2022 and 2023, respectively.

Our research and development expense amounted to approximately RMB18.7 million for the year ended 31 December 2021; and increased by approximately RMB6.4 million to approximately RMB25.1 million for the year ended 31 December 2022. This is mainly attributable to (i) increase of staff cost by approximately RMB4.2 million from approximately RMB11.9 million for the year ended 31 December 2021 to approximately RMB16.1 million for the year ended 31 December 2022, such increase was mainly due to further expansion of our research and development team of our Shanghai Ruiqieer to 18 personnel as at 31 December 2022 and increase in bonus; and (ii) increase of materials consumed by approximately RMB1.4 million from approximately RMB4.2 million for the year ended 31 December 2021 to approximately RMB5.6 million for the year ended 31 December 2022. This increase is generally in line with the expansion of our research and development team.

Technical and testing fee represent cost of engaging third-party service providers for testing and commissioning the equipment and our cost incurred for joint research with institutions and project technical support. Technical and testing fee increased from approximately RMB1.0 million for the year ended 31 December 2021 to approximately RMB2.0 million for the year ended 31 December 2022. Our Group collaborated with East China University of Science and Technology (華東理工大學) since 2022 for research and technical support of a calcium-based chemical reaction heat storage. Following with more collaboration projects with East China University of Science and Technology, for the year ended 31 December 2023, our technical and testing fee was approximately RMB4.7 million, representing an increase of approximately RMB2.7 million from approximately RMB2.0 million for the same period of

2022. For our major research and development projects with East China University of Science and Technology (華東理工大學), please see "Business — Business Strategies — Further strengthen our design and research and development capabilities" to this document.

Our research and development expenses increased by approximately RMB12.9 million from approximately RMB25.1 million for the year ended 31 December 2022 to approximately RMB38.0 million for the year ended 31 December 2023, which was due to (i) increase of staff cost by approximately RMB7.9 million from approximately RMB16.1 million for the year ended 31 December 2022 to approximately RMB23.9 million for the year ended 31 December 2023, mainly resulted from the increase in average headcount of research and development team from around 79 by 2022 to around 106 by 2023; (ii) increase in technical and testing fee of approximately RMB2.6 million as explained above; and (iii) increase in materials consumed from approximately RMB5.6 million for the year ended 31 December 2022 to approximately RMB6.9 million for the year ended 31 December 2023 which was generally in line with the expansion of our research and development team and the progression of our existing projects commenced in 2022 to next stage of output's application in 2023.

Reversal of impairment/(impairment losses) of financial assets and contract assets

Our impairment losses or reversal of impairment of financial assets and contract assets primarily include provisions for and reversal of impairment losses of trade receivables and contract assets. We recognised impairment loss for trade receivables of approximately RMB3.3 million and RMB4.5 million for the years ended 31 December 2022 and 2023, respectively; while we recognised reversal of impairment loss on trade receivables of approximately RMB2.9 million for the year ended 31 December 2021. Our Group recognised impairment losses for contract assets of approximately RMB0.5 million and RMB1.4 million for the years ended 31 December 2022 and 2023, respectively; while we recognised reversal of impairment loss for contract assets of approximately RMB0.5 million for the year ended 31 December 2021.

Our total impairment losses on financial assets and contract assets amounted to approximately RMB3.9 million and RMB5.9 million for the years ended 31 December 2022 and 2023, respectively, while we recorded total reversal of impairment loss on financial assets and contract assets of approximately RMB3.4 million for the year ended 31 December 2021.

Finance costs

Our finance costs mainly consist of interest on bank and other borrowings and interest on lease liabilities, which amounted to approximately RMB3.3 million, RMB3.7 million and RMB5.9 million for the years ended 31 December 2021, 2022 and 2023, respectively. The fluctuation of our finance costs during the Track Record Period was generally in line with the increase of our interest-bearing bank and other borrowings throughout the Track Record Period. Our Group recorded total interest-bearing bank and other borrowings of approximately RMB65.7 million, RMB78.6 million and RMB121.8 million as at 31 December 2021, 2022 and 2023, respectively.

Income tax expenses

Our Group's entities established in the PRC are subject to PRC Enterprise Income Tax ("**EIT**") at a statutory rate of 25%, except for Luoyang Ruichang and Shanghai Ruiqieer, which have obtained Certificate of High Technology Enterprise (高新技術企業證書) in November 2023 and December 2021, respectively. Therefore, entitling Luoyang Ruichang and Shanghai Ruiqieer to preferential income tax rate of 15% for three years from November 2023 and December 2021, respectively, and to be renewed in November 2026 and December 2024, respectively, for additional three years under the relevant PRC tax laws and regulations. According to the Enterprise Income Tax Law of the PRC, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profit earned in the PRC.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability and accordingly is exempted from Cayman Islands income tax. Our Company's directly held subsidiary was incorporated in the BVI as a business company with limited liability and are exempted from BVI income tax. Hong Kong Profits Tax has not been provided as our Group has no assessable profit arising from Hong Kong for the years ended 31 December 2021, 2022 and 2023.

Our taxation comprised of (i) profit tax expenses of EIT; and (ii) deferred tax expenses. For the years ended 31 December 2021, 2022 and 2023, we recorded income tax expenses of approximately RMB4.4 million, RMB7.6 million and RMB12.3 million, respectively, and our effective tax rates (equal to income tax expenses divided by profit before tax) was approximately 24.9%, 17.2% and 18.2%, respectively.

Our effective tax rates during the Track Record Period were higher than that of the preferential income tax rate of 15%, mainly due to the 10% withholding tax on dividends declared by our PRC subsidiaries out of PRC and the increase of **[REDACTED]** incurred during the years not subject to tax deduction.

Our Directors confirm that as at the Latest Practicable Date and during the Track Record Period, we (i) have made all required tax filings under the relevant PRC tax laws and regulations and have paid all outstanding tax liabilities due; and (ii) we were not subject to any other dispute or potential dispute with any tax authorities.

Profit for the year

Our profit for the years ended 31 December 2021, 2022 and 2023 was approximately RMB13.2 million, RMB36.5 million and RMB55.2 million, respectively.

REVIEW OF HISTORICAL RESULTS OF OUR OPERATIONS

Year ended 31 December 2022 compared to year ended 31 December 2023

Revenue

Our total revenue increased by approximately RMB125.0 million or 29.8% from approximately RMB419.1 million for the year ended 31 December 2022 to approximately RMB544.1 million for the year ended 31 December 2023. Such increase mainly attributable to the increase in revenue from manufacturing and sales of equipment by approximately RMB128.8 million; and partially offset by the decrease in revenue from installation services by approximately RMB3.8 million during the year ended 31 December 2023.

Manufacturing and sale of equipment

Revenue from manufacturing and sale of equipment increased by approximately RMB128.8 million or 31.0% from approximately RMB415.3 million for the year ended 31 December 2022 to approximately RMB544.1 million for the year ended 31 December 2023, which was mainly attributable to increase in revenue from sales of catalytic cracking equipment and process burners by approximately RMB67.6 million and RMB69.3 million, respectively; and partially offset by the decrease in revenue from sales of heat exchangers by approximately RMB12.4 million during the year ended 31 December 2023.

Increase in revenue from sales of catalytic cracking equipment of approximately RMB67.6 million for the year ended 31 December 2023 is a combining result of (i) increased demand and sale orders from Customer I, our fourth largest customer for 2023, for the construction of Shandong Yulong Island refining and chemical integration project. We have recorded revenue of approximately RMB39.9 million from Customer I for sales of catalytic cracking equipment during the year ended 31 December 2023; while we only recorded relevant revenue of approximately RMB5.6 million from Customer I for the year ended December 2022; (ii) increased revenue from Customer B, for the sales of catalytic cracking equipment, which was mainly contributed by Urumqi branch of Customer B for the construction of an integration project of refining and chemicals; (iii) increased sale orders and revenue from Customer H, our third largest customer for the year ended 31 December 2023, mainly for the construction of Daxie petrochemical reconstruction and expansion project (phase V). We recorded revenue of sales of catalytic cracking equipment to Customer H of approximately RMB45.5 million for the year ended 31 December 2023; and (iv) increased sale orders and revenue from Customer J, our fifth largest customer for 2023, mainly for the construction of a facility in Inner Mongolia for the production of olefins from green hydrogen and coal, with recorded revenue of approximately RMB42.2 million for the year ended 31 December 2023; and partially offset by the overall decrease in revenue contributed by Customer A, our largest customer for 2022 and 2023 for sales of catalytic cracking equipment by approximately RMB44.0 million for the year ended 31 December 2023. For the year ended 31 December 2023, our sales of catalytic cracking equipment to Customer A was mainly contributed from Yangzi branch office and Zhenhai branch office for the construction of Yangzi refining upgrading project and expansion of Zhenhai refining and chemical project, with aggregate revenue for sales of cracking catalytic equipment of approximately RMB141.0 million; while for the same period of 2022, majority of sales of catalytic cracking equipment was derived from Anqing branch office and Yangzi branch office with relevant revenue of approximately RMB109.9 million and RMB76.8 million, respectively; and we have completed most of our sale contracts with Anqing branch office during the first half of 2022. We did not enter into new significant sale contracts with Anqing branch office for the year ended 31 December 2023.

Our sales of process burners increased by approximately RMB69.3 million for the year ended 31 December 2023, mainly due to (i) the completion of sale contracts with Customer G, our second largest customer for 2023, with total revenue of approximately RMB62.5 million recognised during the year. To the best knowledge of our Directors, our process burners supplied to Customer G will be used for the construction of a chemical complex in Russia; and (ii) increased demand and needs for our process burners leveraging the market growth of process burners used in petroleum refinery and petrochemical operations from approximately RMB835.2 million in 2022 to approximately RMB958.2 million in 2023.

Installation services

Revenue from installation services decreased from approximately RMB3.8 million for the year ended 31 December 2022 to nil for the year ended 31 December 2023. This decrease was mainly due to the decreased demand of installation services from customers under our manufacturing and sale of equipment for the year ended 31 December 2023.

Cost of sales

Our cost of sales increased by approximately RMB66.5 million or 23.2% from approximately RMB286.1 million for the year ended 31 December 2022 to approximately RMB352.6 million for the same period in 2023, which aligned our revenue growth of approximately 29.8% for the year ended 31 December 2023. However, this increase was partially offset by the decrease in costs of materials and components used as a percentage to our total revenue during the year ended 31 December 2023 due to the continuous decrease in the price index of overall steel plate in the PRC as a result of high inventory level.

Gross profit and gross profit margin

Our total gross profit increased by approximately RMB58.5 million or 44.0% from approximately RMB133.0 million for the year ended 31 December 2022 to approximately RMB191.5 million for the year ended 31 December 2023, and this increase generally aligned our revenue growth and affected by the fluctuation of our product mix.

Our overall gross profit margin increased by 3.5 percentage points to approximately 35.2% for the year ended 31 December 2023 as compared to that of approximately 31.7% for 2022. The fluctuation was mainly attributable to the (i) increase of gross profit margin derived from sales of process burners from approximately 34.1% for the year ended 31 December 2022 to approximately 47.2% for the year ended 31 December 2023 and the revenue contributed from sales of process burners to total revenue has also increased from approximately 10.8% in 2022 to approximately 21.0% in 2023; and (ii) increase of gross profit margin derived from sales of catalytic cracking equipment from approximately 31.8% for the year ended 31 December 2022 to approximately 32.8% for the year ended 31 December 2023; and revenue from sales of catalytic cracking equipment has accounted for approximately 60.0% and 58.7%, respectively, of our total revenue for the years ended 31 December 2022 and 2023.

In addition, our relatively higher gross profit margin for the year ended 31 December 2023 was resulted from the overall decrease in cost of materials and components used as a percentage to our revenue for manufacturing and sale of equipment. For the year ended 31 December 2022 and 2023, our cost of materials and components used as a percentage to our revenue for manufacturing and sale of equipment for the relevant period was approximately 56.0% and 53.2%, respectively. This decrease was mainly attributable to the continuous decreasing trend of the price index of overall steel plate in China. According to F&S, the price index of overall steel plate in the PRC has reached its highest (between 2019 to 2023) at 157.7 in September 2021 and decreased to 133.2 in May 2022 and maintained a decreasing trend to 112.9 in December 2023. As a result of the above with a relatively higher revenue contribution for sales of process burners with relatively higher gross profit margin in 2023, we recorded an overall improvement of gross profit margin to approximately 35.2% for the year ended 31 December 2023.

Other income and gains, net

Other income and gains, net, increased from approximately RMB1.8 million for the year ended 31 December 2022 to approximately RMB4.4 million for the year ended 31 December 2023, which was mainly attributable to (i) increase in government grants of approximately RMB0.4 million; and (ii) increase in other income from provision of design and testing services of approximately RMB1.3 million.

Selling expenses

Our selling expenses increased by approximately RMB4.3 million or 21.0% from approximately RMB20.5 million for the year ended 31 December 2022 to approximately RMB24.8 million for the year ended 31 December 2023, which was mainly attributable to (i) the increase in staff costs by approximately RMB3.0 million due to the increase in headcount of our sales team and increase in average salary and bonus during the year; (ii) increase in travelling and related expenses by approximately RMB2.2 million; and (iii) partially offset by the decrease in entertainment expenses by approximately RMB1.2 million.

Administrative expenses

Our administrative expenses increased by approximately RMB13.1 million or 46.5% from approximately RMB28.2 million for the year ended 31 December 2022 to approximately RMB41.3 million for the year ended 31 December 2023, mainly due to (i) increase in staff cost by approximately RMB5.8 million as a result of increased number of our administrative and supporting staff (including 17 trainees newly recruited during the year ended 31 December 2023) from around 48 by 2022 to around 62 by 2023 and increased average salary; (ii) increase in depreciation and amortisation by approximately RMB2.1 million; (iii) increase in office expenses by approximately RMB1.2 million which reflected our expanded administrative and supporting team; and (iv) increase of our professional and consulting fees by approximately RMB2.2 million.

Research and development expenses

Our research and development expenses increased by approximately RMB12.9 million or 51.4% from approximately RMB25.1 million for the year ended 31 December 2022 to approximately RMB38.0 million for the year ended 31 December 2023, mainly due to (i) the expansion of our research and development team during 2023 in anticipation of more research and development projects and collaborations with universities and institutions; (ii) increase of materials consumed by approximately RMB1.3 million which was generally in line with our expanded research and development team and the progression of our existing projects which commenced in 2022 to next stage of output's application in 2023; and (iii) increase in technical and testing fee of approximately RMB2.6 million.

Impairment of financial assets and contract assets

Our Group recognised impairment loss of financial assets and contract assets of approximately RMB3.9 million and RMB5.9 million for the years ended 31 December 2022 and 2023, respectively.

Finance costs

Our finance costs increased by approximately RMB2.2 million or 59.5%, from approximately RMB3.7 million for the year ended 31 December 2022 to approximately RMB5.9 million for the year ended 31 December 2023, mainly as a result of increase in bank and other borrowings from approximately RMB78.6 million as at 31 December 2022 to approximately RMB121.8 million as at 31 December 2023.

Income tax expenses

Our income tax expenses increased by approximately RMB4.7 million or 61.8% from approximately RMB7.6 million for the year ended 31 December 2022 to approximately RMB12.3 million for the year ended 31 December 2023, which is generally in line with the increase of our profit before tax by approximately 53.1% from approximately RMB44.1 million for the year ended 31 December 2022 to approximately RMB67.5 million for the year ended 31 December 2023.

Our Group recorded effective tax rates of approximately 17.2% and 18.2% for the years ended 31 December 2022 and 2023, respectively. Such increase was mainly due to (i) increase of **[REDACTED]**, which are not deductible for tax purposes, from approximately RMB9.4 million for the year ended 31 December 2022 to approximately RMB12.6 million for the year ended 31 December 2023; and (ii) increase of tax losses incurred by our certain group companies in the PRC not recognised as deferred income tax as it is not likely that those companies would generate taxable income in the future.

Profit for the year

As a result of foregoing, our profit for the year increased from approximately RMB36.5 million for the year ended 31 December 2022 to approximately RMB55.2 million for the year ended 31 December ended 31 December 2023.

Our net profit margin increased from approximately 8.7% for the year ended 31 December 2022 to approximately 10.1% for the year ended 31 December 2023, which was a combining result of (i) increase of overall gross profit margin from approximately 31.7% for the year ended 31 December 2022 to approximately 35.2% for the same period in 2023; (ii) increase in other income and gains by approximately RMB2.6 million; (iii) general increase in our selling, administrative and research and development expenses mainly attributable to the increase in our headcounts and expanded operations; (iv) increase in **[REDACTED]** of approximately RMB3.3 million; (v) increase in finance cost of approximately RMB2.2 million; and (vi) increase of effective tax rate of approximately 1.0 percentage points.

Year ended 31 December 2021 compared to year ended 31 December 2022

Revenue

Our total revenue increased by approximately RMB171.1 million or 69.0% from approximately RMB248.0 million for the year ended 31 December 2021 to approximately RMB419.1 million for the year ended 31 December 2022, mainly attributable to increase of revenue from manufacturing and sale of equipment by approximately RMB169.5 million and the increase in revenue from installation services by approximately RMB1.6 million.

Manufacturing and sale of equipment

Revenue from manufacturing and sale of equipment increased by approximately RMB169.5 million or 69.0% from approximately RMB245.8 million for the year ended 31 December 2021 to approximately RMB415.3 million for the year ended 31 December 2022, which was mainly attributable to increase in revenue from sales of catalytic cracking equipment by approximately RMB188.3 million; and partially offset by the decrease in revenue from sales of SRU and VOCs incineration equipment by approximately RMB28.9 million during the year ended 31 December 2022.

Increase in our revenue from sales of catalytic cracking equipment of approximately RMB188.3 million for year ended 31 December 2022 was primarily due to increased sales to Customer A, mainly derived from Anqing branch office and Yangzi branch office, as a result of their increased demand for our products. Our Directors considered that Customer A has a high demand for our equipment and this is consistent to their huge capital expenditures for the development of their refining segment, mainly for their construction of Anqing and Yangzi refining upgrading projects. During the year ended 31 December 2022, total revenue from Anqing branch office and Yangzi branch office of Customer A generated from sales of catalytic cracking equipment was approximately RMB109.9 million and RMB76.8 million, respectively.

Installation services

Revenue from installation services increased from approximately RMB2.2 million for the year ended 31 December 2021 to approximately RMB3.8 million for the year ended 31 December 2022. This increase was mainly due to the increased demand from customers of installation services under our manufacturing of equipment business for the year ended 31 December 2022.

Cost of sales

Our cost of sales increased by approximately RMB109.0 million or 61.5% from approximately RMB177.1 million for the year ended 31 December 2021 to approximately RMB286.1 million for the year ended 31 December 2022. Such increase was largely in line with our increase in revenue by approximately 69.0% during the year and partially mitigated by the gradual decrease of steel price from October 2021 due to the high inventory levels and insufficient demand in the PRC according to F&S Report.

Gross profit and gross profit margin

Our total gross profit increased by approximately RMB62.1 million or 87.6% to approximately RMB133.0 million for year ended 31 December 2022 from approximately RMB70.9 million for the year ended 31 December 2021, and this increase was generally aligned our revenue growth and affected by the fluctuation of our product mix.

Our overall gross profit margin slightly increased by 3.1 percentage points to approximately 31.7% for the year ended 31 December 2022 as compared to that of approximately 28.6% for 2021. The fluctuation was mainly attributable to the increase of gross profit margin derived from sales of catalytic cracking equipment from approximately 29.9% for the year ended 31 December 2021 to approximately 31.8% for the year ended 31 December 2022 and the revenue contributed from sales of catalytic cracking equipment to total revenue has also increased from approximately 25.5% in 2021 to approximately 60.0% in 2022.

Other income and gains, net

Other income and gains, net decreased by approximately RMB6.8 million from approximately RMB8.6 million for the year ended 31 December 2021 to approximately RMB1.8 million for the year ended 31 December 2022. The change was primarily due to (i) decrease in government grants by approximately RMB3.4 million. Our government grants received during the year are one-off in nature and the entitlements of which were unconditional and at the discretion of the relevant authority; and (ii) decrease in litigation compensation received by RMB3.1 million arising from intellectual property infringement proceedings and which have been fully received during the year ended 31 December 2021.

Selling expenses

Our selling expenses increased by approximately RMB5.8 million or 39.5% from approximately RMB14.7 million for the year ended 31 December 2021 to approximately RMB20.5 million for the year ended 31 December 2022, which was mainly attributable to (i) the increase in staff costs by approximately RMB4.3 million as a result of the increase of salary level and headcount of our sales team and increase of bonus awarded to sales team in recognition of our satisfactory business performance during the year ended 31 December 2022; and (ii) the increase in entertainment expenses by approximately RMB1.4 million during the year ended 31 December 2022 which reflected our expanded operations with increased revenue.

Administrative expenses

Our administrative expenses increased by approximately RMB4.7 million or 20.0% from approximately RMB23.5 million for the year ended 31 December 2021 to approximately RMB28.2 million for the year ended 31 December 2022 and this is mainly due to (i) the increase in staff costs by approximately RMB4.4 million as a result of the increase of salary level and bonus awarded to administrative and management staff of approximately RMB1.1 million and the increase in the number of our administrative staff from 43 as at 31 December 2021 to 48 as at 31 December 2022; and (ii) an overall increase in entertainment, office expenses and training expenses.

Research and development expenses

Our research and development expenses increased by approximately RMB6.4 million or 34.2% from approximately RMB18.7 million for the year ended 31 December 2021 to approximately RMB25.1 million for the year ended 31 December 2022 and this is mainly due to (i) the increase of staff costs by approximately RMB4.1 million as a result of the expansion of our research and development team of our Shanghai Ruiqieer from 12 as at 31 December 2021 to 18 personnel as at 31 December 2022; and (ii) overall increase of material consumed and others by approximately RMB1.3 million and RMB0.9 million, respectively, which generally aligned our expanded research and development team.

Reversal of impairment/(impairment losses) of financial assets and contract assets

Our Group recognised impairment losses of financial assets and contract assets of approximately RMB3.9 million for the year ended 31 December 2022, while a reversal of impairment losses of approximately RMB3.4 million was recorded for the year ended 31 December 2021.

Finance costs

Our finance costs remained relatively stable at approximately RMB3.3 million and RMB3.7 million, respectively, for the years ended 31 December 2021 and 2022.

Income tax expenses

Our income tax expenses increased by approximately RMB3.2 million or 72.7% from approximately RMB4.4 million for the year ended 31 December 2021 to approximately RMB7.6 million for the year ended 31 December 2022, which reflected our business growth that resulted in an increase of our profit before tax from approximately RMB17.6 million for the year ended 31 December 2021 to approximately RMB44.1 million for the year ended 31 December 2022.

Our Group recorded effective tax rates of approximately 24.9% and 17.2% for the years ended 31 December 2021 and 2022, respectively. Such decrease was mainly because we have incurred PRC withholding tax on dividends declared by our PRC subsidiaries out of the PRC in 2021 while no such PRC withholding tax in 2022; partially offset by (i) the increase of tax losses incurred by our certain group companies in the PRC not recognised as deferred income tax as it is not likely that those companies would generate taxable income in foreseeable future; and (ii) increase of **[REDACTED]** by approximately 84.3% from approximately RMB5.1 million in 2021 to approximately RMB9.4 million in 2022 and such expenses were not entitled to income tax deduction.

As at 31 December 2021 and 2022, we have accumulated tax losses in the PRC of approximately RMB24.9 million and RMB42.2 million, respectively. Our Group's accumulated tax losses were mainly derived from our subsidiary, Shanghai Ruiqieer, which principal activity is the sales of petroleum refinery and petrochemical equipment. Details of date and place of incorporation and registered capital of Shanghai Ruiqieer is disclosed in section headed "History, Reorganisation and Corporate Structure — Our Principal Subsidiaries" in this document. Established in 1994, we have based our major operations and constructed our production facilities in Luoyang city, the PRC. In 2002, with an aim to expand our operation, we have established Shanghai Ruiqieer in Shanghai which our Directors believe to have more business opportunities, professional and talents and advance technology. During the Track Record Period, we have limited oversea sales and we have developed a research and development team in Shanghai who are specialising in research and development of modular projects abroad, resulting in our expenses incurred which mainly consist of salaries and wages and related welfare of our staff and senior management, research and development expenses and legal and professional expenses, outweighed our revenue of Shanghai Ruiqieer during the years. Specifically, Shanghai Ruiqieer has expanded its research and development team from 12 as at 31 December 2021 to 18 as at 31 December 2022 as our modular projects is in the peak of research and development stage leading to a significant increase of staff cost and research and development expenses. In addition, for the preparation of our **[REDACTED]**, we have recruited more administrative and supporting staff, including the recruitment of a financial director in April 2021. As a result, we recorded an increase of operating losses and accumulated tax losses of Shanghai Ruiqieer as at 31 December 2022 as compared to 2021.

Profit for the year

As a result of the foregoing, our profit for the year increased from approximately RMB13.2 million for the year ended 31 December 2021 to approximately RMB36.5 million for the year ended 31 December 2022.

Our net profit margin increased from approximately 5.3% for the year ended 31 December 2021 to approximately 8.7% for the year ended 31 December 2022, mainly attributable to (i) the increase of gross profit margin by approximately 3.1 percentage point from approximately 28.6% for the year ended 31 December 2021 to approximately 31.7% for the year ended 31 December 2022; and (ii) the decrease in effective tax rate from approximately 24.9% for 2021 to approximately 17.2% for 2022; while partially offset by (i) the increase in **[REDACTED]** of approximately RMB4.3 million for the year ended 31 December 2022; and (ii) decrease in other income and gains, net of approximately RMB6.8 million as a result of decrease in one-off government grants and litigation compensation received.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we have met our liquidity requirements through a combination of cash generated from our operations and bank borrowings. Our primary liquidity requirements are to fund our operations, capital expenditures and payments of principal and interest due on our bank borrowings. During the Track Record Period, we are able to repay our bank borrowings when they became due. Following completion of the **[REDACTED]**, we expect to fund our future operations and expansion plans principally with cash generated from our business operation, net **[REDACTED]** from the **[REDACTED]**, bank borrowings and other funds raised from capital markets, as and when necessary.

Cash flows

The following table sets out a summary of our net cash flows for the years indicated during the Track Record Period:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Operating profit before working capital changes	21,467	59,145	88,922
Changes in working capital	(25,759)	(54,758)	(67,948)
Cash (used in)/generated from operations	(4,292)	4,387	20,974
Income tax paid	(3,760)	(3,355)	(14,569)
Litigation compensation received	3,100	—	—
Net cash (used in)/generated from operating activities	(4,952)	1,032	6,405
Net cash (used in)/generated from investing activities	(29,274)	5,273	(14,076)
Net cash generated from financing activities	19,280	1,529	31,948
Net (decrease)/increase in cash and cash equivalents	(14,946)	7,834	24,277
Effect of changes in foreign exchange rate	(40)	384	3
Cash and cash equivalents at beginning of year	28,158	13,172	21,390
Cash and cash equivalents at end of year	13,172	21,390	45,670

Operating activities

For the year ended 31 December 2021, our Group recorded net cash used in operating activities of approximately RMB5.0 million, primarily consist of cash used in operations of approximately RMB4.3 million, and income tax paid of approximately RMB3.8 million; and partially offset by proceeds from litigation compensation of RMB3.1 million. Our cash used in operations of approximately RMB4.3 million, was mainly resulted from our profit before tax of approximately RMB17.6 million and adjusted for (i) depreciation of property, plant and equipment, right-of-use assets, investment property and intangible assets of approximately RMB5.5 million, RMB1.0 million, RMB0.5 million and RMB0.2 million, respectively; (ii) reversal of impairment loss on financial assets of approximately RMB3.4 million; (iii) finance costs of approximately RMB3.3 million; (iv) increase of trade and notes receivables of approximately RMB48.6 million; (v) increase of inventories of approximately RMB13.4 million; (vi) increase of prepayment, deposits and other receivables of approximately RMB6.4 million; and at the same time, partially offset by (i) increase of trade and notes payables of approximately RMB46.1 million; (ii) net increase of contract assets and liabilities of approximately RMB2.0 million; and (iii) increase in accruals and other payables of approximately RMB4.3 million. Explanations of fluctuations of the aforesaid items from the consolidated statements of financial position are set out in the paragraph headed "Description of Selected Items of the Consolidated Statement of Financial Position".

For the year ended 31 December 2022, our Group recorded net cash generated from operating activities of approximately RMB1.0 million, mainly consist of cash generated from operations of approximately RMB4.4 million and partially offset by income tax paid of approximately RMB3.4 million. Our cash generated from operations of approximately RMB4.4 million was mainly resulted from profit before tax of approximately RMB44.1 million and adjusted for (i) depreciation of property, plant and equipment, right-of-use assets, investment property and intangible assets of approximately RMB5.6 million, RMB1.0 million, RMB0.5 million and RMB0.3 million, respectively; (ii) finance costs of approximately RMB3.7 million; (iii) net impairment loss on financial assets of approximately RMB3.9 million; (iv) increase of trade and notes receivables of approximately RMB152.9 million; (v) increase of prepayment, deposits and other receivables of approximately RMB8.3 million; (vi) increase of inventories of approximately RMB7.8 million; and at the same time, partially offset by (i) net increase of contract assets and liabilities of approximately RMB57.1 million; (ii) increase in accruals and other payables of approximately RMB26.5 million; and (iii) increase of trade and notes payables of approximately RMB20.2 million. Explanations of fluctuations of the aforesaid items from the consolidated statements of financial position are set out in paragraph headed "Description of Selected Items of the Consolidated Statement of Financial Position".

For the year ended 31 December 2023, our Group recorded net cash generated from operating activities of approximately RMB6.4 million, mainly consists of cash generated from operations of approximately RMB21.0 million and partially offset by income tax paid of approximately RMB14.6 million. Our cash generated from operations of approximately RMB21.0 million was mainly resulted from our profit before tax of approximately RMB67.5 million, and adjusted for (i) depreciation of property, plant and equipment, right-of-use assets, investment property and intangible assets of approximately RMB6.1 million, RMB3.3 million, RMB0.5 million and RMB0.4 million, respectively; (ii) finance costs of approximately RMB5.9 million; (iii) net impairment loss on financial assets of approximately RMB5.9 million; (iv) increase of trade and notes receivables of approximately RMB21.7 million; (v) increase of prepayment, deposits and other receivables of approximately RMB4.9 million; (vi) increase of inventories of approximately RMB13.6 million; (vii) decrease in accruals and other payables of approximately RMB7.3 million; (viii) net changes of contract assets and liabilities of approximately RMB27.3 million; and at the same time, partially offset by increase of trade and notes payables of approximately RMB22.6 million. Explanations of fluctuations of the aforesaid items from the consolidated statements of financial position are set out in paragraph headed "Description of Selected Items of the Consolidated Statement of Financial Position".

Our net operating cash flow fluctuated during the Track Record Period, which was mainly because (i) there are often time lags between settlements to our suppliers and settlements from our customers, resulting in possible cash flow mismatch during the years. Our Group generally incurs costs before or along with our production as we have to pay our suppliers partially for procuring the necessary materials and components required for our production. For the years ended 31 December 2021, 2022 and 2023, our trade and note receivables turnover days were approximately 198 days, 205 days and 214 days, respectively, which generally represented the timeframe since we delivered our equipment and up to the settlement of amounts due from our customers. Meanwhile, our trade and notes payables turnover days were approximately 172 days, 149 days and 143 days, respectively, which generally represented the timeframe since we received materials and components from our suppliers and up to our settlement of payment to them. This demonstrates that it generally takes a relatively longer period for us to receive settlements from our customers, as compared to the time it took us to settle our payments to suppliers. We may experience cash flow mismatch from time to time, which largely depend on our customers' internal process for approving our billings; the credit terms granted to us by our suppliers; and the number and scale of our contracts; (ii) we have been awarded by our customers for more sale contracts with relatively larger contract sum and we have recorded increasing backlog amounts as at the end of the reporting period. As 31 December 2021, 2022 and 2023, our ending value of backlog is approximately RMB186.5 million, RMB409.0 million and RMB366.5 million, respectively. This resulted in increased prepayment made to our suppliers for purchase of materials and components and outsourcing services and increased purchase of inventories. As at 31 December 2021, 2022 and 2023, our prepayments amounted to approximately RMB8.2 million, RMB16.3 million and RMB22.3 million, respectively, and our inventories amounted to approximately RMB45.3 million, RMB53.1 million and RMB66.7 million, respectively; and (iii) the increase in our income tax payment as a result of our expanding operations and better financial performance during the Track Record Period. Our Group is able to recorded a positive operating cash flow for the years ended 31 December 2022 and 2023.

To improve our net operating outflow position, we have taken the following measures:

- expediting the cycle of recovering trade receivables. We have taken several measures to improve the collection rate of our trade receivables. For details, please see "Description of Selected Items of the Consolidated Statements of Financial Position — Trade and notes receivables" in this section;

- liaising with our suppliers for better payments terms so as to minimise the risk of cashflow mismatch from making payment to our suppliers and receiving payment from our customers; and

- improving our operational efficiency in various aspects of our daily operations, including continuing to manage and control: among other things, (i) streamlining and optimising production process such that we can assign more junior engineers with lower labour costs to execute implementation tasks; (ii) optimising the performance evaluation system for our sales force to focus more on profitability; (iii) continuing to improve the efficiency of our sales and marketing activities through optimising our advertising channel mix; and (iv) continuing to optimise our product development planning and process to lower costs and optimising the team structure of our research and development team.

Investing activities

For the year ended 31 December 2021, our Group had net cash used in investing activities of approximately RMB29.3 million, mainly attributable to (i) the purchases of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income of RMB10.0 million and RMB17.0 million, respectively; (ii) the payment for purchases of property, plant and equipment of approximately RMB4.5 million; and (iii) acquisition of shareholding of an associate of approximately RMB0.7 million; and partially offset by recovery of financial assets at fair value through profit or loss of RMB3.0 million.

For the year ended 31 December 2022, our Group had net cash from generated from investing activities of approximately RMB5.3 million, mainly attributable to the recovery of financial assets at fair value through profit or loss of RMB7.0 million and partially offset by the purchase of property, plant and equipment and intangible assets of approximately RMB1.8 million and RMB0.2 million, respectively.

For the year ended 31 December 2023, our Group had cash used in investing activities of approximately RMB14.1 million, primarily attributable to (i) purchases of property, plant and equipment and intangible assets of approximately RMB4.8 million and RMB1.4 million, respectively; (ii) advance to our Controlling Shareholders of approximately RMB8.6 million; and (iii) partially offset by interest received of approximately RMB0.6 million.

Financing activities

For the year ended 31 December 2021, our Group had net cash generated from financing activities of approximately RMB19.3 million, mainly attributable to (i) addition of bank borrowings of approximately RMB59.7 million and (ii) proceeds from shares issued of approximately RMB24.4 million; and partially offset by (i) repayment of bank borrowings of RMB37.0 million; (ii) dividends paid of approximately RMB19.3 million; (iii) interest paid of approximately RMB3.3 million; and (iv) deferred **[REDACTED]** of approximately RMB5.1 million.

For the year ended 31 December 2022, our Group had net cash generated from financing activities of approximately RMB1.5 million, mainly attributable to addition of bank borrowings of approximately RMB66.7 million and partially offset by (i) repayment of bank borrowings of approximately RMB53.9 million; (ii) deferred issue cost of approximately RMB7.6 million; and (iii) interest paid of approximately RMB3.7 million.

For the year ended 31 December 2023, our Group had net cash generated from financing activities of approximately RMB31.9 million, mainly attributable to addition of bank and other borrowings of approximately RMB122.9 million; and partially offset by (i) repayment of bank and other borrowings and lease liabilities of approximately RMB79.6 million and RMB2.9 million, respectively; (ii) interest paid of approximately RMB5.9 million; and (iii) deferred issue cost of approximately RMB2.4 million.

CURRENT ASSETS AND CURRENT LIABILITIES

Net current assets

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

	As at 31 December			As at 30 April
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets				
Inventories	45,332	53,128	66,742	72,631
Trade and notes receivables	160,176	309,758	326,916	284,129
Prepayments, other receivables and other assets	26,793	42,624	58,358	73,907
Financial assets at fair value through profit or loss	7,000	—	—	—
Contract assets	22,259	36,228	48,946	51,377
Pledged deposits	16,230	5,810	21,457	38,287
Cash and bank balances	13,172	21,390	45,670	30,719
	290,962	468,938	568,089	551,050
Current liabilities				
Trade and notes payables	106,598	126,794	149,347	139,875
Contract liabilities	17,656	89,260	76,037	87,403
Accruals and other payables	21,992	48,482	41,194	39,062
Bank and other borrowings	32,748	54,600	82,336	70,211
Lease liabilities	—	—	2,504	1,387
Tax payables	3,951	8,897	7,660	3,802
	182,945	328,033	359,078	341,740
Net current assets	108,017	140,905	209,011	209,310

We recorded net current assets as at 31 December 2021, 2022 and 2023 and 30 April 2024 of approximately RMB108.0 million, RMB140.9 million, RMB209.0 million and RMB209.3 million, respectively.

Our net current assets increased by approximately RMB32.9 million from approximately RMB108.0 million as at 31 December 2021 to approximately RMB140.9 million as at 31 December 2022, mainly attributable to (i) the increase of approximately RMB149.6 million and RMB14.0 million in the balances of our trade and notes receivables and contract assets respectively, as a result of our revenue growth during 2022; (ii) increase in our inventories by approximately RMB7.8 million; and (iii) increase of prepayments, other receivables and other assets of approximately RMB15.8 million, mainly attributable to increase in prepayment for purchase of materials and components and increase in balances with our Controlling Shareholders. This was partially offset by the (i) the increase of trade and notes payables and contract liabilities of approximately RMB20.2 million and RMB71.6 million, respectively; (ii) the increase of accruals and other payables of approximately RMB26.5 million, mainly arising from the increase of other tax payable; (iii) increase of bank and other borrowings of approximately RMB21.9 million; and (iv) increase of tax payables of approximately RMB4.9 million which aligned our increased operating profit during the year ended 31 December 2022.

Our net current assets increased by approximately RMB68.1 million to approximately RMB209.0 million as at 31 December 2023. Such increase is a combined effect of (i) increase in inventories of approximately RMB13.6 million; (ii) increase in prepayment, other receivables and other assets of approximately RMB15.7 million; (iii) increase in trade and notes receivables of approximately RMB17.2 million; (iv) increase in trade and note payables of approximately RMB22.6 million; and (v) net changes in contract assets and contract liabilities of approximately RMB25.9 million. In addition, the increase in bank and other borrowings and lease liabilities of approximately RMB30.2 million, in aggregate, was partially offset by the increase in cash and bank balances and pledged deposits of approximately RMB24.3 million and RMB15.6 million, respectively.

As at 30 April 2024, we recorded net current assets of approximately RMB209.3 million, which was similar to that as at 31 December 2023.

Sufficiency of working capital

Our Directors confirm that, after due and careful enquiry and taking into consideration the financial resources presently available to us, including our expected cash flow generated from our operating activities, our cash and cash equivalents on hand, the estimated net **[REDACTED]** from the **[REDACTED]** and our available banking facilities, our Group has sufficient working capital for our present requirements and for the next 12 months commencing from the date of this document.

Taking into account the working capital management policies adopted by us, and the due diligence work conducted by the Sole Sponsor including but not limited to (i) reviewing the Accountants' Report as set out in Appendix I to this document, (ii) the financial due diligence conducted on our historical financial information during the Track Record Period and discussions with management on its working capital projections, and (iii) written confirmations provided by us and the Reporting Accountants in respect of working capital sufficiency, the Sole Sponsor concurs with the Directors' view that we have sufficient working capital to meet our present needs and at least the next 12 months from the date of this document.

DESCRIPTION OF SELECTED ITEMS OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment mainly consist of buildings, machinery and electronic equipment, office equipment and others, motor vehicles, leasehold improvements and construction in progress. The carrying values of our property, plant and equipment decreased from approximately RMB59.4 million as at 31 December 2021 to approximately RMB55.4 million as at 31 December 2022; and further decreased to approximately RMB54.0 million as at 31 December 2023. Such changes were mainly attributable to the addition of property, plant and equipment during the year and partially offset by the depreciation expense incurred during the Track Record Period.

Investment property

Our investment property mainly represent our properties held for rental income purposes. Our investment property is stated at cost less accumulated depreciation and impairment losses, if any. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of 50 years.

Our investment property amounted to approximately RMB12.1 million, RMB11.6 million and RMB11.1 million as at 31 December 2021, 2022 and 2023, respectively. The fluctuation reflected the depreciation charges of approximately RMB0.5 million, RMB0.5 million and RMB0.5 million, for the years ended 31 December 2021, 2022 and 2023, respectively.

Right-of-use assets

Lease are recognised as right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by our Group. Assets arising from a lease are initially measured on a present value basis. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Our right-of-use assets mainly represent land use rights and leased properties of approximately RMB39.0 million, RMB38.1 million and RMB42.1 million in total as at 31 December 2021, 2022 and 2023, respectively. The overall increase of our right-of-use assets as at the end of respective period was a combined effect of (i) the conclusion of new leases for office premises and a production facility in the PRC during the year ended 31 December 2023 and (ii) the depreciation charges provided for during the Track Record Period.

Intangible assets

Our intangible assets mainly consist of purchased software, which amounted to approximately RMB1.2 million, RMB1.2 million and RMB2.1 million as at 31 December 2021, 2022 and 2023, respectively.

Inventories

Our inventories mainly represent materials and components consist of steel materials and components to be used during our production process and research and development purpose; work-in-progress; and finished goods that have completed the manufacturing process and to be delivered and installed at our customers' sites. As at 31 December 2021, 2022 and 2023, the balance of our inventories represented approximately 15.6%, 11.3% and 11.7% of our total current assets, respectively. The following tables set out the breakdown of our inventories as at the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Materials and components	4,275	7,089	6,409
Work-in-progress	9,086	19,340	55,629
Finished goods	31,686	26,216	3,983
Spare parts	285	483	721
	45,332	53,128	66,742

Our inventories increased from approximately RMB45.3 million as at 31 December 2021 to approximately RMB53.1 million as at 31 December 2022, primarily due to the increase in our materials and components and work-in-progress by approximately RMB2.8 million and RMB10.3 million, respectively, reflecting our increased purchases of materials and components as a result of increased sales and stockpiling in anticipation of greater market demand for our products, and partially offset by the decrease in finished goods by approximately RMB5.5 million due to the fact that we have increased delivery of finished goods in the last quarter of 2022 as compared with that of 2021.

Our inventories further increased by approximately RMB13.6 million to approximately RMB66.7 million as at 31 December 2023 which was mainly attributable to increase in work-in-progress by approximately RMB36.3 million and partially offset by decrease of finished goods by approximately RMB22.2 million.

The following table set out the ageing analysis of our inventories as at the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	41,958	25,349	58,798
91–180 days	831	7,645	1,256
181–365 days	712	970	3,428
Over one year	1,831	19,164	3,260
	45,332	53,128	66,742

We recorded a decrease of inventories aged over one year from approximately RMB19.2 million as at 31 December 2022 to approximately RMB3.3 million as at 31 December 2023, mainly due to the delivery of finished goods aged over one year as at 31 December 2022 upon customers' instructions for delivery and acceptance during the year ended 31 December 2023.

Pursuant to our inventory policy, the value of inventory shall be stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis and net realisable value is the estimated selling price for inventories less the estimated costs of completion and the costs necessary to make the sale. Our policy on obsolete or damaged inventories is to write off such inventories when our management considers the obsolete or damaged inventories to have no residual value. During the Track Record Period, we had not made any provision or written off of our inventory.

As at the Latest Practicable Date, approximately RMB32.9 million or 49.4% of our inventories as at 31 December 2023 were subsequently consumed/delivered. Our Directors consider there is no material recoverability issue for inventories aged over one year of approximately RMB3.3 million as at 31 December 2023 which comprised approximately RMB2.2 million of materials and components and spare parts; and approximately RMB1.1 million of finished goods, for the reasons that (i) a substantial part of such inventories had already been allocated to our on-going contracts and their subsequent sale/utilisations are only subject to the customers' instructions for delivery and customers' acceptance; (ii) we communicated with our customers regularly and are not aware of any suspension of projects as at the Latest Practicable Date; and (iii) our inventories are not perishable or fragile products and can maintain saleable value. Our management also reviews the recoverability of our inventories as of the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. As a result, no provision had been made with respect to our inventories as of the Latest Practicable Date.

The following table sets forth our average inventory turnover days for the years indicated:

	Year ended 31 December		
	2021	**2022**	**2023**
Average inventory turnover days[(1)]	80	63	62

Note:

(1) Average inventory turnover days are calculated by dividing the average of the opening and closing balances of inventories for the relevant year by cost of sales for the relevant year and multiplying the resulting value by the number of days for the relevant year.

Our average inventory turnover days decreased from approximately 80 days for the year ended 31 December 2021 to approximately 63 days for the year ended 31 December 2022, which reflected our increased sales for the years ended 31 December 2022 and we have increased delivery of finished goods in the last quarter of 2022 as compared with that of 2021. Our average inventory turnover days for the year ended 31 December 2023 was approximately 62 days which was similar to that of 2022.

Trade and notes receivables

The following table sets out the breakdown of our trade and notes receivables as at the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	125,878	269,921	285,170
Less: Provision for impairment	(2,338)	(5,155)	(9,193)
Trade receivables, net	123,540	264,766	275,977
Notes receivables	36,636	44,992	50,939
	160,176	309,758	326,916

Our trade and notes receivables represent outstanding balances from our customers in relation to their purchases of our equipment, which are mainly settled by bank transfer or bank acceptance notes. Trade receivables, net of provision for impairment as at 31 December 2021, 2022 and 2023 amounted to approximately RMB123.5 million, RMB264.8 million and RMB276.0 million; respectively; and our notes receivables which represents bank acceptance notes from our customers, amounted to approximately RMB36.6 million, RMB45.0 millions and RMB50.9 million, respectively.

The following table sets forth an ageing analysis of our notes receivables based on due date at the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	15,989	17,301	36,310
91 to 180 days	19,297	25,496	14,629
181 days to one year	1,350	2,195	—
	36,636	44,992	50,939

From the ageing analysis above, all of our notes receivables as at 31 December 2023 were aged within six months and majority of our notes receivables as at 31 December 2021 and 2022 were aged within six months. For those notes receivables aged over six months but within 12 months, they only accounted for approximately 3.7% and 4.9% of our notes receivables as at 31 December 2021 and 2022, respectively. As at 31 December 2023, over 85% of the notes receivables were bank acceptance notes which the acceptance banks shall make unconditional payment of money to the payee upon maturity; and the remaining balance of approximately RMB6.5 million were trade acceptance notes issued by our customers who are listed companies, state-owned enterprises and/or their subsidiaries or affiliates, which our Director believe they are financially sound with low default risk.

Our Group normally accepts note receivables from customers as a payment method which is in line with our contract terms. As confirmed by F&S, it is common in the industry that equipment manufacturers accept note receivables as settlement of balance due from customers with note receivables with maturity date up to 12 months. Our Directors has also considered various factors for accepting notes receivables with maturity date up to 12 months, which included (i) maintaining a long-standing business relationships with our customers; (ii) for customers that may not be able to provide immediate settlement, accepting a relatively longer-term note receivables may be the only way for us to secure payment; (iii) accepting a longer-term note receivables may bring us a competitive advantage over our competitors in obtaining new contracts from our customers; and (iv) there was no history of default and past due amounts on our notes receivables during the Track Record Period. In view of the counterparty of majority of our notes receivables were banks and financial institutions with the remaining balances consisted of trade acceptance notes which were issued by our customers who are listed companies, state-owned enterprises and/or their subsidiaries or affiliates, our Directors consider the risk of default is relatively low, and the loss allowance on our notes receivables was assessed to be minimal as at 31 December 2021, 2022 and 2023.

Our Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. We generally grant our customers credit term up to three months. Our Group may determine and allow a longer credit period on a case-by-case basis, after taking into account various factors, including customers' background and operational scales, financial conditions, their demand of our products, contract size, business relationships with us, their past settlement history and the prevailing market conditions. We may also allow a more generous credit period to our market-leading customers or customers who are either (i) listed companies (include those enterprises listed on NEEQ) and/or state-owned enterprises ("**SOE(s)**"); or (ii) subsidiaries and/or affiliates of listed companies and/or SOEs, which our Directors believe they are financially sound with low default risk, with a view to developing long term business relationship with them and increasing our market penetration during the COVID-19 pandemic.

For instance, we have extended credit term of up to 180 days to Guizhou Jinze and Customer F during the Track Record Period. Credit period to Guizhou Jinze is extended up to 180 days and this is determined after taking into account: (i) Guizhou Jinze is a new customer in 2021 and an affiliate company of a SOE; (ii) a sale contract with Guizhou Jinze with contract sum (inclusive of VAT) of RMB15.0 million is considered as relatively large-size contract in 2021 and 50% payment in advance is required prior to our delivery of our equipment; and (iii) the prevailing market condition during the COVID-19 pandemic. Credit period to Customer F is also up to 180 days, after considered that: (i) our Group have a long term business relationships with Customer F since 2012; (ii) it is a sizable company with over 2,000 employees and has long historical standing since 1993; (iii) sale contracts with Customer F with aggregate contract sum (inclusive of VAT) of approximately RMB13.0 million is considered as significant during our Track Record Period; and (iv) the prevailing market condition during the COVID-19 pandemic.

Our Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. We do not hold any collateral or other credit enhancements over our trade receivables balances.

The following table sets forth an ageing analysis of our trade receivables (net of loss allowance), based on the date when we obtains the unconditional rights for payment as at the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	80,970	144,521	122,873
91 to 180 days	9,777	49,815	56,045
181 days to 1 year	11,040	47,620	72,707
Over 1 year but within 2 years	16,541	14,455	11,289
Over 2 years but within 3 years	4,514	7,475	10,673
Over 3 years but within 4 years	698	880	2,390
	123,540	264,766	275,977

Our trade receivables, net of loss allowance increased by approximately RMB141.3 million from approximately RMB123.5 million as at 31 December 2021 to approximately RMB264.8 million as at 31 December 2022, as a result of more sales made upon delivery of our products in last quarter of 2022 of approximately RMB169.6 million as compared to 2021 of approximately RMB115.5 million. Our trade receivables, net of loss allowance increased by approximately RMB11.2 million to approximately RMB276.0 million as at 31 December 2023, which was mainly attributable to increase of our revenue for the year ended 31 December 2023 and certain amounts of which were not due for settlement by the end of the reporting period.

Based on the ageing analysis above, the proportion of our trade receivables over one year over the total balance of trade receivables as at 31 December 2021 was approximately 17.6%. Following to our business development and increase in our revenue during the Track Record Period, our Group has established and implemented appropriate supervisory policy over long aged trade receivables with the aim to improve the risk management on recoverability. The proportion of our trade receivables over one year over the total balance of trade receivables as at 31 December 2022 and 2023 was maintained at a similar level of approximately 8.6% and 8.8%, respectively.

The following table sets forth a summary of our average trade and notes receivables turnover days for the years indicated:

	Year ended 31 December		
	2021	**2022**	**2023**
Average trade receivables turnover days[(1)]	146	169	181
Average notes receivables turnover days[(2)]	52	35	32
Average trade and notes receivables turnover days[(3)]	198	205	214

Notes:

(1) Average trade receivables turnover days are calculated by dividing the average of the opening and closing balance of trade receivables, net of impairment provision for the relevant year divided by total revenue for the relevant year and multiplying the resulting value by the number of days for the relevant year.

(2) Average notes receivables turnover days are calculated by dividing the average of the opening and closing balance of notes receivables for the relevant year divided by total revenue for the relevant year and multiplying the resulting value by the number of days for the relevant year.

(3) For illustrative purposes, average trade and notes receivables turnover days are calculated by dividing the average of the opening and closing balance of trade and notes receivables, net of impairment provision for the relevant year divided by total revenue for the relevant year and multiplying the resulting value by the number of days for the relevant year.

Our average trade receivables turnover days was approximately 146 days, 169 days and 181 days for the years ended 31 December 2021, 2022 and 2023, respectively. Such fluctuation was mainly attributable to the fluctuation of the amounts settled by different customers to us as at the respective reporting dates due to different credit periods granted by us as well as different settlement practices of our customers.

The increase of average trade receivables turnover days for the year ended 31 December 2022 was due to increase of trade receivables balance as at 31 December 2022 as compared to 2021 mainly attributable to (i) a significant increase in sales from approximately RMB248.0 million for the year ended 31 December 2021 to approximately RMB419.1 million for the year ended 31 December 2022 and certain amounts of trade receivables arose had not reached the settlement stage as at the end of reporting period; (ii) a relatively slower collection of trade receivables as special arrangement during the COVID-19 pandemic as our Directors considered that our customers took a longer time to arrange settlement due to temporary travel restrictions or lockdown measures; and (iii) the increase in sales to SOEs and listed company customers who generally have longer settlement periods as they typically have onerous internal fiscal budget and settlement procedures. For the year ended 31 December 2021 and 2022, approximately 62.7% and 82.8% of our revenue was derived from sales with SOEs and listed company customers, respectively; and as at 31 December 2021 and 2022, approximately 65.4% and 81.7% of our trade and note receivables (net of allowance) were due from SOEs and listing company customers. It is confirmed by F&S that, it is an industrial norm that the payment approval process for PRC SOEs are typically complicated and time consuming.

For the year ended 31 December 2023, our average trade receivables turnover days increased to approximately 181 days from approximately 169 days for the year ended 31 December 2022. This is because (i) we recorded further increase of revenue from SOEs and listed company customers for the year ended 31 December 2023, which accounted for approximately 83.2% of our total revenue. As at 31 December 2023, approximately 82.8% of our trade and note receivables (net of allowance) were due from SOEs and listed company customers; and (ii) we recorded a relatively higher revenue of approximately RMB169.6 million during the last quarter of 2022 as compared to that of RMB158.4 million during the last quarter of 2023 while certain amount of which were not due for settlement, resulting in a relatively large balance of trade receivables as at 31 December 2022 being carried forward to 2023, as compared to that of 2023 receivables balances carried forward to 2024.

Our average notes receivables turnover days was approximately 52 days, 35 days and 32 days, respectively, for the years ended 31 December 2021, 2022 and 2023 which was relatively stable and within the maturity date of most of our notes receivables.

As a result of the above, we recorded an increasing trend of our overall average trade and notes receivables turnover days from approximately 198 days for the year ended 31 December 2021 to approximately 205 days for the year ended 31 December 2022; and further increased to approximately 214 days for the year ended 31 December 2023.

The following table sets forth a summary of our average trade and notes receivables turnover days for (i) customers with listed company and/or SOEs background ("**SOEs and listed company customers**") and (ii) non-SOEs customers ("**Non-SOEs customers**") for the years indicated:

	Year ended 31 December		
	2021	**2022**	**2023**
SOEs and listed company customers[(1)]	208	190	211
Non-SOEs customers	181	277	226

Note:

(1) Included listed companies, SOEs and subsidiaries and/or affiliates of listed companies and/or SOEs based on public information.

Average trade and notes receivables turnover days for SOEs and listed companies customers for the years ended 31 December 2021, 2022 and 2023 are maintained at a similar level of approximately 208, 190 and 211 days.

Our average trade and notes receivables turnover days for SOEs and listed company customers further increased to approximately 211 days for the year ended 31 December 2023 because (i) we recorded increased revenue of approximately RMB125.0 million for the year ended 31 December 2023, among which, approximately 83.2% was related to sales of equipment to SOEs and listed company customers while certain amount of which were not due for settlement; and (ii) high demand of our equipment during the fourth quarter of 2022, led to a relatively large balance of trade receivable as at 31 December 2022 carried forward to 2023. We recorded increase of trade receivables balance due from SOEs and listed company customers, accounting for approximately 82.8% of our trade and notes receivables as at 31 December 2023 while approximately 81.7% of that as at 31 December 2022. Our Directors confirm that there had been no material payment defaults in our trade receivables from SOEs and listed company customers during the Track Record Period.

Average trade and notes receivables turnover days for Non-SOEs customers increased from approximately 181 days for the year ended 31 December 2021 to approximately 277 days for the year ended 31 December 2022. This is a combining result of decrease in our revenue from Non-SOEs customers for the years ended 31 December 2022 as compared to 2021. Revenue from our Non-SOEs customers has accounted for approximately 37.3% and 17.2% of our total revenue for the years ended 31 December 2021 and 2022, respectively; while we recorded an increase of trade and notes receivables from our Non-SOEs customers during 2022 mainly due to the increase in net trade receivables aged over one year from approximately RMB5.3 million as at 31 December 2021 to approximately RMB7.7 million, which we believe was due to the slowdown of payment process during the COVID-19 pandemic. Net trade receivables aged over one year from our Non-SOEs customers has accounted for approximately 22.7% of total trade receivables from our Non-SOEs customers as at 31 December 2022 which is higher than that of approximately 13.5% as at 31 December 2021.

Our average trade and notes receivables turnover days for Non-SOEs customers decreased to approximately 226 days for the year ended 31 December 2023, which reflected our continuous effort to follow up the settlement from our customers.

Our Directors are of the view that, our range of average trade receivables turnover days during the Track Record Period is in line with common practice in the market. According to the F&S Report, equipment providers usually have a relatively long average trade receivables turnover days as customers of them (including owners of production facilities, contractors and equipment manufacturers which fits the description of most of our customers) tend to significantly delay with the payment of receivables upon the completion of their construction projects and that industry players would have to adopt various methods to collect payment. Hence, it is customary for equipment providers to extend their credit terms to their customers. We will continue our payment collection methods at a certain period after the expiry of our customers' credit period, as per our trade receivables collection policy. Moreover, the average trade and notes receivables turnover days in this industry was at around 100 to 350 days and our Group's overall average trade and notes receivables turnover days and average trade and notes receivables turnover days by SOEs and listed company customers and Non-SOEs customers are both within the industry range.

The following table sets forth an ageing analysis of our trade receivables based on due date, as at 31 December 2022 and the subsequent settlement of it as at the Latest Practicable Date:

	Trade receivables, gross as at 31 December 2022		**Subsequent settlement up to the Latest Practicable Date**	**Percentage of subsequent settlement up to the Latest Practicable Date**
	RMB'000	*%*	*RMB'000*	*%*
Current	145,578	53.9	145,578	100.0
Within 180 days	89,961	33.3	79,893	88.8
181 days to 1 year	14,490	5.4	9,121	62.9
Over 1 year but within 2 years	12,596	4.7	11,088	88.0
Over 2 years	7,296	2.7	4,036	55.3
	269,921	100.0	249,716	92.5

The following table sets forth an ageing analysis of our trade receivables based on due date, as at 31 December 2023 and the subsequent settlement of it as at the Latest Practicable Date:

	Trade receivables, gross as at 31 December 2023		Subsequent settlement up to the Latest Practicable Date	Percentage of subsequent settlement up to the Latest Practicable Date
	RMB'000	*%*	*RMB'000*	*%*
Current	123,971	43.5	59,225	47.8
Within 180 days	122,246	42.9	51,383	42.0
181 days to 1 year	13,144	4.6	3,702	28.2
Over 1 year but within 2 years	17,160	6.0	2,413	14.1
Over 2 years	8,648	3.0	1,514	17.5
	285,169	100.0	118,237	41.5

As at the Latest Practicable Date, approximately RMB249.7 million or 92.5% of our gross trade receivables as at 31 December 2022 were subsequently settled; and approximately RMB118.2 million or 41.5% of our gross trade receivables as at 31 December 2023 were subsequently settled.

Based on the ageing analysis above, the aggregate proportion of balances not yet past due and balances overdue within one year as at 31 December 2023 was similar to that as at 31 December 2022, which accounted for over 90% of our total gross trade receivables as at the respective date. The proportion of balances overdue within 180 days increased from approximately 33.3% as at 31 December 2022 to approximately 42.9% as at 31 December 2023, which was mainly due to more sales made upon delivery of our products in second half of 2023 of approximately RMB330.2 million as compared to 2022 of approximately RMB218.8 million.

As at the Latest Practicable Date, approximately 44.1% of the balances overdue within one year as at 31 December 2023 were subsequently settled. The proportion of balances overdue over one year as at 31 December 2023 slightly increased from approximately 7.4% as at 31 December 2022 to approximately 9.0% as at 31 December 2023. Among the gross balances overdue over one year as at 31 December 2023 of approximately RMB25.8 million, over 62% of it was due from SOEs and listed company customers which our Directors believe they are financially sound with low default risk. For the balances overdue over two years from Non-SOEs customers, based on our Group's credit policy, provision for impairment has been made for around 50% of such balances. As at the Latest Practicable Date, approximately RMB3.9 million of the gross trade receivable balances overdue over one year as at 31 December 2023 were subsequently settled.

Having considered (i) the ongoing settlement payments received from our customers for balances overdue without material increase in the proportion of our trade receivables overdue over one year as at 31 December 2023 as compared to that as at 31 December 2022; (ii) approximately 44.1% of the balances overdue within one year as at 31 December 2023 were subsequently settled, although the proportion of balances overdue within 180 days increased to approximately 42.9% as at 31 December 2023; (iii) over 62% of the balances overdue over one year as at 31 December 2023 was due from SOEs and listed company customers with low default risk; and (iv) provision for impairment has been already made for around 50% for balances overdue over two years due from Non-SOEs customers, our Directors are of the view that there will not be any material collection problem on the overdue balances and the provision for impairment is considered to be adequate.

The following table set forth our trade receivables based on due date and overdue over one year by (i) SOEs and listed company customers and (ii) Non-SOEs customers as at 31 December 2023 and the subsequent settlement as at the Latest Practicable Date:

	Credit period granted	Gross trade balances overdue over one year as at 31 December 2023	Provision for impairment as at 31 December 2023	Subsequent settlement as at the Latest Practicable Date	Percentage subsequent settlement as at the Latest Practicable Date
		RMB'000	*RMB'000*	*RMB'000*	*%*
SOEs and listed company customers:					
— Guizhou Jinze(1)	180 days	4,620	(678)	1,000	21.6
— Customer A(1)	60 to 90 days	780	(115)	—	—
— Customer J(1)	30 days	1,823	(209)	—	—
— Customer C(1)	30 to 45 days	722	(82)	—	—
— Other SOEs and listed company customers		8,121	(2,334)	735	9.1
Sub-total		16,066	(3,418)	1,735	10.8
Non-SOEs customers:					
— Customer L(2)	90 days	1,297	(648)	—	—
— Other Non-SOEs customers		8,445	(2,403)	2,192	26.0
Sub-total		9,742	(3,051)	2,192	22.5
Total		25,808	(6,469)	3,927	15.2

Notes:

(1) Details of background of and our relationships with Guizhou Jinze, Customer A, Customer C and Customer J are disclosed in sections headed "Business — Our Customer — Our five largest customers" in this document.

(2) Customer L is a privately-owned PRC company located in Ningbo city, mainly engaged in the trading of equipment, with its business coverage based in the PRC. The company was established in 2017 with a registered capital of RMB10 million with less than 50 employees. As at the Latest Practicable Date, trade receivables due from Customer L were subject to legal action and have been concluded at the courts for settlement.

Recoverability for trade receivables overdue over one year as at 31 December 2023

As at 31 December 2023, we recorded gross trade receivables overdue over one year of approximately RMB25.8 million which accounted to approximately 9.0% of our total gross trade receivables, among which, approximately RMB16.1 million or approximately 62.4% of such balances were due from our SOEs and listed company customers; while remaining of approximately RMB9.7 million or approximately 37.6% were due from our Non-SOEs customers.

As mentioned above, it is a common industry phenomenon for customers to significantly delay with the payment of receivables upon the completion of their construction projects and it is customary for equipment providers to extend their credit terms to their customers. To the best knowledge of our Directors after making reasonable enquiries, the delay in payment is mainly due to (i) the lengthy internal payment process of customers; (ii) temporary stringent cash flow; (iii) quality issues arising from customers within the warranty period. It is our Group's general policy that no sales return is accepted after the formal acceptance of our equipment by our customers. We provide warranty period from one to two years from the date our customer accepted the products. If quality issues such as defects on parts and components of equipment are found by our customers during the warranty period, we will replace or repair the defective parts. During the Track Record Period, we have not issued any equipment recalls due to defects; and (iv) our equipment delivered to customer were not in operation yet due to delay in whole projects and/or the construction of other parts of the production facilities where our equipment only constituted a part of the project or production facilities; or disruption under COVID-19 pandemic, causing a delay in payment.

Our Directors are of the view that there is no recoverability issues for our trade receivables overdue over one year as at 31 December 2023 and there is sufficient provision, on the following basis:

- the amount of provision on trade receivables is measured by applying a scientific assessment model, in which various considerations have been included under the ECL model, such as the future economic forecasts, credit risk of debtors, historical data and inflation rate. Our Directors consider the assessment model has provided a concrete basis to formulate the amount of provision;

- despite being over a seemingly longer recovery period, in generally terms, we can subsequently settle most of our trade receivables. As at the Latest Practicable Date, approximately RMB113.6 million or 90.3%, RMB249.7 million or 92.5% and RMB118.2 million or 41.5% of our gross trade receivables as at 31 December 2021, 2022 and 2023, respectively, had been subsequently settled. Such subsequent settlement of trade receivable rate was calculated as the percentage of subsequent settlement amount (gross amount) to trade receivables (gross amount) as at 31 December 2021, 2022 and 2023, respectively;

- based on the ageing analysis by due date set out above, there is no material increase in the proportion of our trade receivables overdue over one year as at 31 December 2023 as compared to that of 31 December 2022;

- among the trade receivables as at 31 December 2023, approximately RMB16.1 million or 62.4% of our gross trade receivables overdue over one year were associated with SOEs and listed company customers. In light of (i) the sound creditability of the SOEs and listed company customers; (ii) continuous repayments made by them subsequent to the Track Record Period; (iii) some of the SOEs and listed company customers have on-going projects with our Group as at the Latest Practicable Date; and (iv) the relationship of the SOEs and listed company customers with our Group, our Directors believe that we have no recoverability issue for our trade receivables overdue over one year from our SOEs and listed company customers. In addition, as confirmed by F&S, although it is an industry norm that the payment approval process for SOEs and listed company customers are typically complicated and time consuming, SOEs and listed company customers with sound financial positions generally have low recoverability issues;

- approximately RMB9.7 million of gross trade receivables overdue over one year as at 31 December 2023 were due from 31 Non-SOEs customers, among which, (i) approximately RMB3.5 million subject to legal action were owed to us from four Non-SOEs customers (including Customer L), which had been either judged at first instance, concluded at the courts, or enforcements had been applied for settlement; and provision of approximately RMB1.5 million is made; (ii) approximately RMB0.6 million were fully impaired for six Non-SOEs customers; and (iii) remaining gross trade receivables of approximately RMB5.6 million was provided with impairment provision of approximately RMB1.0 million, due from 21 Non-SOEs customers. As at the Latest Practicable Date, approximately RMB2.2 million were subsequently settled from these Non-SOEs customers. Our Directors considered there is no recoverability issue on such remaining unsettled balance from our Non-SOEs customers as (i) these companies maintains stable business operations and is financially sound, to the best knowledge of our sales team based on our communication with customers; (ii) the ongoing settlement payments received from customers during the last 24 months;

- our overall average trade and notes receivables turnover days and our average trade and notes receivables turnover days by SOEs and listed company customers and Non-SOEs customers were both within such range of industry peers. We recorded increasing trend of our overall average trade and notes receivable turnover days for SOEs and listed company customers during the Track Record Period as a result of our increased sales with SOEs and listed company customers during the Track Record Period and resulting in increased trade receivables due from SOEs and listed company customers who generally have longer settlement periods as they generally have onerous internal fiscal budget and settlement procedures. However, in light of the abovementioned, our Directors believe our Group will be able to recover the unsettled balances in due course. We recorded a decrease in our overall average trade and notes receivable turnover days for Non-SOEs customers from approximately 277 days for the year ended 31 December 2022 to approximately 226 days for year ended 31 December 2023 which reflected our continuous effort in chasing settlement from our customers. In addition, during the Track Record Period, we did not experience any material difficulties in collecting trade receivables from our customers;

- our Directors confirm there was no material disagreement or dispute between us and our customers which could adversely affect the recoverability of the trade receivables that remained unsettled; and we had not encountered any material bad debts being written off or any payment default that would lead to a materially adverse impact on our financial condition during the Track Record Period; and

- our management closely monitors the amounts and turnover days for our trade receivables to minimise and control credit risk. Our management also reviews the outstanding balance with our customers at regular intervals to ascertain the collectability of our trade receivables and where necessary, our team may follow up on overdue balances from customers and the collection status would be required to be reported to our management on a regular basis. We would also consider to escalate to legal action if our debt recovery actions for trade receivables could not reach our expectations.

Based on the aforesaid, our Directors believe that we have no material recoverability issue for our trade receivables overdue over one year and we have made sufficient loss allowance provisions for trade receivables to mitigate the uncertainties associated with the outstanding amount and continue to make sufficient provisions to account for any potential write-offs and contingent factors.

In order to strengthen our credit control and improve the recoverability of our trade receivables, our Group have implemented the following measures:

(a) review the trade receivables ageing report and settlement status of overdue balances on a quarterly basis by finance department and sales department; and relevant follow-up actions shall be performed under the supervision of finance director;

(b) conduct customer acceptance assessment for new customers, including their background, size and scale of operations, financial conditions and the finance department shall grant credit terms with reference to this assessment;

(c) perform credit assessment on existing customers on a half-year basis based on updated customers' information, including but not limited to updated market information, historical payment record and ageing analysis;

(d) restriction would be imposed before accepting new orders from those customers with overdue trade receivables balances beyond their respective credit limits.

As at 31 December 2021, 2022 and 2023, we had total loss allowance for impairment on trade receivables of approximately RMB2.3 million, RMB5.2 million and RMB9.2 million, respectively. Our Group provided appropriate and sufficient expected credit losses ("**ECL**") on trade receivables. We determined ECL on trade receivables on an individual basis for customer with high credit risk based on our Group's historical credit loss experience of different customer portfolio (i.e. those trade receivables which had been past due over four years with no settlement within one year are provided with full impairment as our Directors consider such recoverability is low).

We determined ECL on the remaining trade receivables on a collective basis using a provision matrix, estimated by internal credit rating considering the information of the customers, historical settlement pattern and default rates over our trade receivables and ageing of the trade receivables. The historical loss rates are also adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of our customers to settle their receivables. We have identified GDP to be the most relevant factor, and accordingly adjusted the historical loss rates based on expected changes in these factors.

Our Group's expected credit loss rate is then based on the historical loss rate calculated by the migration rate model and adjusted for forward-looking factors on this basis. According to the balance of trade receivables in the past five years, we distinguishes the characteristics of different business risks, and calculates the migration rate of trade receivables in each age group based on the average migration rate of three years. We had made 100% credit loss rate for our trade receivables aged over four years. For details of ECLs for trade receivables, please refer to note 25 to the Accountants' Report set out in Appendix I to this document.

Our Group recorded an increase in loss allowance for impairment on trade receivables from approximately RMB2.3 million as at 31 December 2021 to approximately RMB5.2 million as at 31 December 2022. This is mainly due to (i) the increase of weighted average expected credit loss rate to approximately 1.91% as at 31 December 2022 from approximately 1.86% as at 31 December 2021; (ii) increased trade receivables as at 31 December 2022 as a result of more sales was recognised in last quarter of 2022 as compared to 2021; (iii) a relatively slower settlement pattern of overall trade receivables which reflected our longer average trade and note receivables turnover days by 2022; and (iv) the increase in trade receivables aged over four years as compared to 2021, which fully impairment was provided.

The overall weighted average expected credit loss rate increased to approximately 3.22% as at 31 December 2023 from approximately 1.91% as at 31 December 2022 was mainly because our Group recorded an overall increase in the proportion of trade receivables aged over one year to the total gross trade receivables as at 31 December 2023 as compared to that as at 31 December 2022, in particular, as at 31 December 2023 and 2022, trade receivables aged over one year accounted for approximately 11.0% and 9.6%, respectively, of total gross trade receivables.

Contract assets and contract liabilities

The following table sets out the breakdown of our contract assets as at the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Contract assets	22,579	37,097	51,189
Less: Allowance for expected credit losses	320	869	2,243
	22,259	36,228	48,946
Contract liabilities	17,656	89,260	76,037

Contract assets

We generally provide our customers with warranty period from one to two years from the date which our performance obligation has been satisfied in accordance with the terms specified in the contracts, our customers will usually withhold 5%–10% of contracts sum as retention money which are payable to us when the warranty period expired. Our contract assets represented such retention receivables arising from our sale of equipment business which are unsecured and interest-free. The retention receivables will be released and reclassified to trade receivables on the date when the warranty period have expired. We shall issue bills to our customers in relation to the receivables of retention monies. For details of our trade receivables, please refer to "Trade and notes receivables" in this section.

As at 31 December 2021, 2022 and 2023, our contract assets amounted to approximately RMB22.3 million, RMB36.2 million and RMB48.9 million, respectively. Such increase corresponded to (i) our growth in business as reflected in our revenue growth during the Track Record Period; and (ii) the increase in the number of sizable contracts with relatively larger contract sums which generally required longer warranty period.

The following table sets out an ageing analysis of our contract assets (gross) as at the dates indicated and their subsequent transfer to trade receivables up to the Latest Practicable Date:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	13,162	19,148	26,269
One to two years	9,417	17,949	24,920
	22,579	37,097	51,189

As at the Latest Practicable Date, approximately RMB4.4 million, representing approximately 8.6% of our contract assets as at 31 December 2023 had been transferred to trade receivables upon the expiry of warranty period and were billed to our customers properly.

Please refer to the below about the credit risk exposure of our Group's contract assets as at the date indicated:

	As at 31 December		
	2021	**2022**	**2023**
Expected credit loss rate	1.4%	2.3%	4.4%
Gross carrying amount *(RMB'000)*	22,579	37,097	51,189
Expected credit losses *(RMB'000)*	320	869	2,243

Our Group recorded an impairment provision for contract assets of approximately RMB2.2 million as at 31 December 2023. An impairment analysis is performed by our Group at each reporting date using a probability of default model to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on historical data adjusted by forward looking information. Our Directors are of the view that there is no material recoverability issue for our contracts assets and that adequate provisions had been made during the Track Record Period on the following basis:

- retention receivables are generally reclassified to trade receivables at the end of the warranty period and therefore, our Directors considered that there is no recoverability issue for our retention receivables;

- as at the Latest Practicable Date, our contract assets as at 31 December 2023 are within the warranty period stipulated in the relevant sale contracts;

- our Group was not subject to any material claims for defect liability from our customers during the warranty period of our products during the Track Record Period; and

- additionally, our retention receivables generally increased during the Track Record Period primarily due to our business growth with relatively larger contracts obtained which would also impact our contract assets aged over one year.

Contract liabilities

Our contract liabilities represent the advance payment received from our customers for sale of products before the delivery of products.

Our contract liabilities increased from approximately RMB17.7 million as at 31 December 2021 to approximately RMB89.3 million as at 31 December 2022, which was mainly attributable to more advanced payment from customers pursuant to new contracts with relatively larger contract sum, such as approximately RMB43.8 million was received from an oversea customer for a new contract of sales of process burners entered into by late 2022. Our contract liabilities decreased by approximately RMB13.3 million to approximately RMB76.0 million as at 31 December 2023, followed by the delivery of our products and recognition of revenue during the late 2023.

As at the Latest Practicable Date, approximately RMB31.0 million or 40.8% of our contract liabilities as at 31 December 2023 were subsequently recognised as revenue.

Prepayments, other receivables and other assets

The following table sets out the breakdown of our prepayments, other receivables and other assets as at the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Advances to our staff	1,957	2,189	2,833
Deposits	6,798	7,816	7,228
Prepayments	8,203	16,262	22,286
Prepayments for **[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Other receivables	4,263	2,926	3,556
Amounts due from our Controlling Shareholders[(1)]	510	5,909	9,847
Other current assets	413	446	2,650
	27,249	43,125	58,822
Impairment	(456)	(501)	(464)
	26,793	42,624	58,358

Note:

(1) Amounts due from our Controlling Shareholders are unsecured, interest-free and repayable on demand. All outstanding amounts due from our Controlling Shareholders as at 31 December 2023 have been settled as at the Latest Practicable Date.

Advances to our staff

Our advances to staff amounted to approximately RMB2.0 million, RMB2.2 million and RMB2.8 million as at 31 December 2021, 2022 and 2023, respectively, which mainly represent the advances to staff prior to expenses incurred by them for the purpose of our operation of business and business development. Such balance mainly fluctuate with the number of our staff and business trips; and the amount of cash advance they would request.

Deposits

Our deposits mainly represent (i) deposits we placed for contract tendering and (ii) other deposits. Our deposits of bidding for contracts amounted to approximately RMB6.6 million, RMB7.6 million and RMB6.7 million, respectively, as at 31 December 2021, 2022 and 2023. The overall increase was mainly because we have participated more bidding that involved larger contracts sum and which required us to pay a relatively higher amount of deposits for bidding. This is consistent to the increase of contract sum of tenders we submitted during the years.

Prepayments

Prepayments amounting to approximately RMB8.2 million, RMB16.3 million and RMB22.3 million as at 31 December 2021, 2022 and 2023, respectively, mainly represented prepayments to our suppliers for purchase of materials and components and outsourcing services. Such increase was generally in line with the increasing ending value of our backlog as at the year end and our anticipation of greater market demand of our products. Our backlog as at 31 December 2021, 2022 and 2023 and the Latest Practicable Date amounted to approximately RMB186.5 million, RMB409.0 million, RMB366.5 million and RMB413.1 million, respectively.

Other receivables

As at 31 December 2021 and 2022, our other receivables mainly consisted of (i) rental receivables of approximately RMB0.3 million and RMB0.5 million, respectively; (ii) a receivable of RMB0.7 million for referral and sourcing service of overseas business opportunities in 2020 but subsequently terminated in 2021 due to COVID-19 pandemic. Such balance was fully settled in 2021; and (iii) non-trade cash advance to third parties of approximately RMB2.7 million and RMB1.8 million, respectively.

During the years ended 31 December 2021 and 2022, our non-trade cash advances were made to (i) a privately-owned company in the PRC with whom Mr. Lu Bo had personal connections, for their personal use of short-term capital needs, with balance of approximately RMB0.9 million and nil as at 31 December 2021 and 2022, respectively (outstanding amounts as at 31 December 2021 have been fully settled during 2022); to the best knowledge of our Directors after making reasonable enquiries, the company was an Independent Third Party; and (ii) Mr. Ye Hong of RMB1.8 million and RMB1.8 million as at 31 December 2021 and 2022, respectively for his personal use of short-term capital needs. Mr. Ye Hong is a personal friend of Mr. Lu Bo and the ultimate beneficial owner of our Group's financial adviser, namely Shanghai Xinda Investment Consulting Limited, a PRC company principally engaged in investing consulting, business consulting and corporate management consulting business and were engaged by us in assisting our Group throughout the **[REDACTED]** process from July 2019 to March 2023. To the best knowledge of our Directors after making reasonable enquiries, Mr. Ye Hong is an Independent Third Party and such receivables have been fully settled as at the Latest Practicable Date and we do not intend to advance cash to Mr. Ye Hong in the future.

As at 31 December 2023, our other receivables of approximately RMB3.6 million, mainly consisted of (i) rental receivables of approximately RMB0.3 million; (ii) non-trade cash advance to Mr. Ye Hong of RMB1.8 million which have been fally settled as discussed above; and (iii) our non-trade cash advances made to two privately-owned company in the PRC with whom Mr. Lu Bo had personal connections, for their personal use short-term capital needs, with total balances of approximately RMB1.3 million as at 31 December 2023. Our Directors confirmed that such amounts will be settled before **[REDACTED]**.

Under the General Lending Provisions (《貸款通則》) (the "**Provisions**"), only financial institutions may legally engage in the business of extending loans. However, pursuant to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》), that became, effective on 1 September 2015 and latest amended on 29 December 2020, loans among companies are valid if extended for purposes of financing production or business operations, except for circumstances resulting in a void agreement stipulated in the Civil Code of the PRC. Our PRC Legal Adviser are of the view that (i) the Provisions principally regulate financial institutions as to their business of loans, financing arrangements between other civil entities are generally regulated by the Civil Code of the PRC; and (ii) our non-interest bearing financing arrangement with the related parties and/or third parties for purposes of financing business operations does not violate the applicable provisions of the Civil Code of the PRC or the Provisions. As at the Latest Practicable Date, we had not received any notice of claim or were not subject to any investigation or penalty relating to the cash advance to related parties and/or third parties during the Track Record Period.

As at the Latest Practicable Date, approximately RMB23.6 million or 40.1% of gross amount of prepayment, other receivables and other assets as at 31 December 2023, were subsequently settled/utilised.

Financial assets at fair value through profit or loss

Commercial bank's financing products

Our financial assets at fair value through profit or loss of RMB7.0 million as at 31 December 2021 represent financial products subscribed from licenced banks in the PRC, with non-safeguarded principal and floating income as a means of cash management to generate reasonable return for our idle funds pending deployment of such funds and provide flexibility for our Group's business development plans.

Financial assets at fair value through other comprehensive income

Our financial asset at fair value through other comprehensive income as at 31 December 2021, 2022 and 2023 represented the fair values of our investment in an unlisted entity, namely Ningbo Bomijia Fund LP (寧波柏米嘉股權投資合伙企業(有限合伙)) (the "**Fund**"), which we acquired in 2021. In December 2021, Shanghai Ruiqieer has jointly entered into a partnership agreement ("**Partnership Agreement**") with Ningbo Fermica Private Equity Fund Management Co., Ltd. (寧波弗米迦私募基金管理有限公司) ("**Ningbo Fermica**") and an individual investor, an Independent Third Party, in relation to the formation of the Fund. The initial capital contribution in the amount of RMB20.0 million was made during the year ended 31 December 2021. Ningbo Fermica (as the general partner) and Shanghai Ruiqieer and the individual investor (both as limited partners) have initially agreed to subscribe for 1.5%, 96.5% and 2.0%, respectively of the registered capital of the Fund.

General information of the Fund

(1) Investment strategy and investment method of the Fund

The Fund shall primarily focus on investment in projects and entities involved on environmental protection and energy saving, new energy, new materials, artificial intelligence, big data and life sciences. The investment method of the Fund mainly includes the participation in the investment of sub-funds projects and the equity investment of unlisted enterprises.

(2) Duration of the Fund

The duration of the Fund shall be seven years from initial fund-raisings, including five years of investment period and two years of exit period. It may be extended by unanimous consent of all partners.

Capital contribution and payment

The total initial capital contribution size of the Fund is RMB20.0 million, and Shanghai Ruiqieer (as a limited partner) has contributed in cash in the amount of RMB17.0 million as at the Latest Practicable Date. The capital contribution of each party to the Fund was determined after arm's length negotiation among the partners with reference to the capital needs of the Fund. Our Group has financed this investment with our internal resources.

Management of the Fund

(1) Investment decision-making committee

All investments of the Fund are subject to the review and consideration procedures of the Fund's investment decision-making committee. The Fund takes the investment decision-making committee as the highest decision-making authority for investment and consists of three members appointed by Ningo Fermica (as general partner). The founding members and ultimate beneficial owners of Ningbo Fermica is Mr. Ye Hong with two Independent Third Parties, each held 60%, 35% and 5% of the beneficial interest of Ningbo Fermica, respectively. To the best of our Directors' knowledge, they have extensive experience in the green environmental protection and equipment manufacturing industry and Asia capital markets, with a special area of expertise and network in China. Decisions of the investment decision-making committee shall be approved by two thirds or more of the voting rights of all members.

(2) Fund manager

All partners have unanimously agreed that Ningbo Fermica, the general partner shall be entrusted as the executive partner of the Fund to represent the Fund externally and perform the partnership affairs. Furthermore, all partners unanimously agreed that Silver Saddle Equity Investment Management (Shanghai) Co., Ltd (上海銀鞍股權投資管理有限公司) ("**Silver Saddle**") shall act as the manager of the Fund. To the best of our Directors' knowledge, Silver Saddle is a company established under the laws of the PRC and is principally engaged in investment and management of private equity and venture capital funds. The management team of Silver Saddle has more than 20 years of experience in the industry and possesses in depth professional knowledge in the business, financial and legal professions, and is therefore equipped with professional knowledge as well as resources in the new materials, new energy, life sciences and green environmental protection. The largest shareholder of Silver Saddle is Sinochem International Corporation (shares of which are listed on the Shanghai Stock Exchange), which is a state-owned listed enterprise in the PRC with core competitiveness in agrochemicals, intermediates and new materials, polymer additives, and natural rubber. The limited partners shall take no part in the operation of the Fund or the management or control of its investment and affairs other than as set forth in the Partnership Agreement.

As consideration for the daily operation and investment management services provided by Silver Saddle, all limited partners shall bear and pay the management fee to Silver Saddle through the Fund. The annual management fee paid is charged at 0.5% of the total actual capital contribution of all limited partners to the Fund for the duration of the Fund. The general partner does not bear any management fee.

Distribution and loss sharing

The available profits are agreed to be distributed in the following orders:

(i) each partner will receive distributable profits in proportion to their cash contributions until each partner receives an amount equal to 100% of their cumulative cash contributions;

(ii) the first 80% of the residual distributable profits will then be distributed to each partner in proportion to their actual cash contributions; and

(iii) the remaining 20% of the residual distributable profits will be allocated to the general partner.

Under circumstances where the investment project of the Fund incurs loss, all partners shall bear the losses according to the proportion of their cash contributions.

Transfer of Fund interest

Limited partners shall not transfer, pledge or encumber its interest in the Fund without obtaining the consent of the general partner. In the case of transfer, the transferee shall provide (i) a undertaking to the general partner to undertake that he will comply and be bound by the terms of the Partnership Agreement; (ii) other documents, identifications and information deemed necessary by the general partner; and (iii) a written confirmation to undertake that the proposed transfer will not violate the Partnership Law of the PRC and impede the operation of the Fund. Unless upon unanimous written consent of all limited partners, general partner may transfer its interest to any third party who is not a connected person of the general partner.

To the best of our Directors' knowledge, Silver Saddle was introduced to our Group through Mr. Ye Hong in or around April 2021. Our Directors considered Silver Saddle's investment strategy in new energy and green environmental protection sectors is aligned with our Group's long-term development goal and positioning, and our Group can also ride on the opportunity to expand our existing customers and suppliers network and industrial chain through Silver Saddle's strong network and connections. By participating in the Fund, our Group is able to add versatilities to our existing investment approach and opened us to more potential investment targets in related industries. Hence, our Group decided to enter into the Partnership Agreement for the formation of the Fund with Ningbo Fermica and an individual investor during the year ended 31 December 2021.

To the best of our Directors' knowledge after making reasonable enquiries, other than the non-trade cash advances made to Mr. Ye Hong, Mr. Ye Hong being one of the ultimate beneficial owners of the general partner of the Fund and the ultimate beneficial owner of our Group's financial adviser prior to March 2023, the personal and business relationships with the relevant parties disclosed above, there are no past or present relationships between the general partner and limited partners of the Fund and our Group, our Shareholders, our Directors or senior management, or any of their respective associates the Track Record Period and up to the Latest Practicable Date.

The Fund is established in accordance to Partnership Law (中華人民共和國合夥企業法) of the PRC and the rights and obligations of investors are binding by this law and the Partnership Agreement. According to the Partnership Agreement, the general partner (i.e. Ningbo Fermica) has the discretion and the highest decision making authority for the relevant activities of the Fund, i.e. the investment activities of the Fund that significantly affect the investee's returns for the purpose of HKFRS. Currently, the Fund's investment decision-making committee comprises three members appointed by Ningbo Fermica (the general partner); while Shanghai Ruiqieer and other limited partner do not have such rights. The general partner has the sole discretion to early terminate the Fund during the duration of the Fund.

In addition, neither Shanghai Ruiqieer nor other limited partner of the Fund hold substantive rights to affect the general partner and investment decision-making committees' ability to direct the relevant activities of the Fund, or substantive removal rights to kick out the general partner. The general partner does not require to obtain approval from other investors or other governing body in relation to the partnership affairs. Furthermore, the general partner does not receive a fixed fee. The available profit of the Fund are distributed in the orders as mentioned above under "*Distribution and loss sharing*". The sharing of remaining 20% of the residual distributable profits increase the general partner's exposure to variability of returns from the Fund and which aligns the general partner's interests with those of the other investors. Lastly, the general partner shall be liable for all the liabilities of the Fund with unlimited joint liability while each limited partner are only responsible to the extent of their respective investments.

As such, our Group neither has control nor significant influence over the Fund and the Fund will not be considered as a subsidiary or an associate of our Company, regardless of our Group's level of ownership in the Fund. Although the interests of the Fund held by our Group represent approximately 96.5% of the issued share capital of the Fund as at 31 December 2021, 2022 and 2023, our Group has no control over the Fund's investment decisions and has no significant influence over the Fund. Our Directors also confirmed that the investment is intended to be held for medium to long-term and have elected to designate these investments as financial assets at fair value through comprehensive income.

On 31 December 2021, the Fund's investment decision-making committee has unanimously agreed to participate into a series B funding of Xiamen Zifisense Information Technology Limited (廈門縱行資訊科技有限公司) ("**Xiamen Zifisense**"), a private company in the PRC involving in low-power internet-of-thing (IoT) technology and solution provider, with ZETA, a self-developed low-power wide-area communication technology. Based on ZETA, Xiamen Zifisense has built a complete IoT communication solution and industry application solution, and built the licence-free frequency band LPWAN network in China. Xiamen Zifisense was established on July 2013 with a registered capital of approximately RMB7.6 million. As at the Latest Practicable Date, Xiamen Zifisense was held by several individual investors and Chinese venture capital institutions in the PRC with their respective shareholdings ranged from approximately 0.0374% to 25.6053%, among which, our Fund hold approximately 3.949% equity interest in Xiamen Zifisense with total consideration fully paid of approximately RMB18.0 million. To the best knowledge of our Directors after making reasonable enquiries, the founder of Xiamen Zifisense, being the controlling shareholders of Xiamen Zifisense, is a PRC businessman who is an expert in communication technology industry. Xiamen Zifisense have underwent several series of funding since 2017 from a few Chinese venture capital institutions who focused on investing in start-ups and growing enterprises of emerging industries such as information technology, IoT communication projects, and high-tech innovative companies in the start-up and growth stages. As at the Latest Practicable Date, the registered capital of Xiamen Zifisense is approximately RMB7.6 million and there is around 57 staff in the company. As at 31 December 2022, Xiamen Zifisense recorded positive net asset position based on the audited report for the year ended 31 December 2022.

The fair value of our investments is determined by our Group's share of net asset value of the Fund, which is adjusted to their fair value at the end of each reporting period performed by an external valuer. We recognised a fair value loss of approximately RMB2.3 million for the year ended 31 December 2022, resulting in a decrease of balance of our financial assets at fair value through other comprehensive income to approximately RMB14.7 million as at 31 December 2022. For the year ended 31 December 2023, we recognised fair value loss of approximately RMB0.3 million leading to further decrease of our financial assets to approximately RMB14.4 million as at 31 December 2023. Such fair value loss was mainly attributable to the negative fair value changes in the performance of investment project of the Fund.

In respect of the assessment of the valuation of our financial assets at fair value through other comprehensive income with reference to the guidance under the "Guidance Note on Directors' Duties in the Context of Valuations in Corporate Transactions" issued by SFC in May 2017 applicable to directors of companies listed on the Stock Exchange, our Directors have reviewed: (i) the term of investment subscription agreements; (ii) the fair value measurement assessment of the relevant financial assets; and (iii) carefully considered all related information input. We have engaged an independent qualified professional valuer to perform the relevant valuation assessment. Our management team reviewed the external valuer's valuation analysis and results, and they have discussed the basis of the valuation with our Reporting Accountants. Based on the above, our Directors are of the view that the valuation of our Group's level 3 financial instruments is fair and reasonable and the financial statements of our Group is properly stated. Our Reporting Accountants have carried out their 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 for the purpose of expressing an opinion on our historical financial information for the Track Record Period as a whole. Our reporting accountants' opinion on the historical financial information of our Group for the Track Record Period as a whole is set out on page I-1 of Appendix I to this document.

In relation to the valuation analysis performed by our Directors, our Sole Sponsor has (i) discussed with our Company, in particular with the relevant personnel in charge of finance who is familiar with the valuation of the level 3 financial instruments, to understand (a) the nature and details of the financial assets and the procedures performed for such valuation, (b) the methodology, key assumptions and parameters taken into account by our Company for the valuation as advised by the external valuer, and (c) the internal control undertaken for reviewing the relevant valuation; (ii) reviewed the investment subscription agreements; (iii) reviewed the valuation report issued by the external valuer engaged by us and conducted interviewed with the external valuer to understand, among others, (a) its work scope, (b) the valuation procedure, and (c) valuation methodologies, key basis and assumption taken into account when performing the valuation; (iv) reviewed the professional qualification and previous experience of the external valuer through desktop search; and (v) obtained as understanding from the Reporting Accountants on their work in relation to the valuation of financial assets for the purpose of reporting on the historical financial information of our Group, as a whole for the Track Record Period.

Based on the work done by our Directors, the external valuer and the Reporting Accountants, and having considered the relevant due diligence done as stated above, nothing has come to the attention of the Sole Sponsor that would cause the Sole Sponsor to question the valuation analysis performed by our Company on its level 3 financial instruments.

For details of our financial assets at fair value through other comprehensive income and its fair value measurement, please refer to notes 7 and 22 of the Accountants' Report set out in Appendix I to this document.

Our investment and treasury management policies in relation to investment activities include:

- our Board is responsible for the overall planning and evaluation of treasury policy and investments; while our finance team is responsible for the executive and implementation, reviewing and reporting of investment to our Board on a regular basis;

- financial products issued by banks shall be of low risk with reasonable returns and liquidity;

- criteria for selecting financial products and financial assets include our risk exposure, economic development and market conditions, the investment cost, the duration of the investment, the expected benefit and return or the potential loss of the investment, and liquidity;

- investments in financial assets and financial products are subject to a multi-layered approval process involving our finance team and senior management;

- approvals from our finance team and senior management are required for each investment transaction; and

- upon the maturity dates of each investment, designated personnel at our finance team would be responsible for the redemption and disposition of the investments according to the relevant contracts.

We have formulated internal control policies setting out the approval process for our investing activities and the responsible person/for the enforcement of the policies. Our investment decisions are made on a case-by-case basis after due and careful consideration of our cash flow positions and future working capital requirements based on operational needs. Our investment shall not affect our operation activities, working capital requirement and investment in relation to our main scope of business. Each transaction for the purchase for financial products and investment is initiated by our finance team, which should be reviewed by our financial director, and subject to the approval of our Board. After the **[REDACTED]**, any investment in financial assets and products by our Group will be subject to compliance with the relevant applicable requirements under Chapter 14 under the Listing Rules.

Trade and notes payables

Our trade and notes payables mainly consisted of trade payables to (i) suppliers in relation to our purchase of materials and components; and (ii) vendors in relation to our payments incurred in installation fees, transportation fees and consultancy fees. The table below sets forth a breakdown of our trade and notes payables as of the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	104,160	114,752	100,966
Notes payables	2,438	12,042	48,381
	106,598	126,794	149,347

The following table sets forth an ageing analysis of our trade and notes payables based on the invoice date:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	73,479	46,094	102,127
91 to 180 days	14,803	44,017	20,433
181 to 365 days	9,990	21,484	13,341
Over 1 year	8,326	15,249	13,446
	106,598	126,794	149,347

As at 31 December 2021, 2022 and 2023, our trade and notes payables amounted to approximately RMB106.6 million, RMB126.8 million and RMB149.3 million, respectively.

Our trade and notes payables increased by approximately 18.9% from approximately RMB106.6 million as at 31 December 2021 to approximately RMB126.8 million at 31 December 2022, but at a slower rate than our revenue growth for 2022 because we significantly increased the amount of prepayments to our suppliers. Our trade and notes payables increased by approximately 17.7% to approximately RMB149.3 million as at 31 December 2023 as a result of our revenue growth during the year ended 31 December 2023 and increased purchase of materials and components to meet our sales backlog for 2024.

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

	Year ended 31 December		
	2021	**2022**	**2023**
Average trade and notes payables turnover days[(1)]	172	149	143

Note:

(1) Average trade and notes payables turnover days are calculated by dividing the average of the opening and closing balances of trade and notes payables for the relevant year by cost of sales for the relevant year and multiplying the resulting value by the number of days for the relevant year.

Average trade and notes payables turnover days were approximately 172 days, 149 days and 143 days for the years ended 31 December 2021, 2022 and 2023, respectively.

Our average trade and notes payables turnover days remained relatively stable at approximately 149 days and 143 days, respectively, for the years ended 31 December 2022 and 2023. Our average trade and notes payables turnover days were relatively higher in 2021 of approximately 172 days, mainly due to relatively high trade and notes payables balances as at 31 December 2021 as a result of more purchase of materials and components for our production in the last quarter of 2021.

As at the Latest Practicable Date, approximately RMB40.8 million or 40.4% of our trade payables as at 31 December 2023 had been subsequently settled. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable, there was no material dispute with our suppliers.

Accruals and other payables

The table below sets out a breakdown of our accruals and other payables as of the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Accrued salaries, wages and benefits	13,193	17,246	22,356
Amounts due to our Controlling Shareholders	33	—	—
Other payables	1,506	3,611	8,107
Other tax payables	7,260	27,625	10,731
	21,992	48,482	41,194

Our accruals and other payables comprised accrued salaries, wages and benefits, amounts due to our Controlling Shareholders, other payables and other tax payables, amounted to approximately RMB22.0 million, RMB48.5 million and RMB41.2 million, respectively, as at 31 December 2021, 2022 and 2023.

Our accruals salaries, wages and benefits was approximately RMB13.2 million, RMB17.2 million and RMB22.4 million as at 31 December 2021, 2022 and 2023, respectively, and such overall increase during the Track Record Period was mainly attributable to the increase in number of our staff and increase in average salary and bonus awarded to them.

Our other payables mainly comprised of (i) payables for acquisition of property, plant and equipment; (ii) accrued expenses and reimbursement payables; (iii) tender deposits received and (iv) input VAT, amounted to approximately RMB1.5 million as at 31 December 2021; and subsequently increased to approximately RMB3.6 million as at 31 December 2022. This is mainly attributable to the increase of tender deposits received from our suppliers in relation to biddings of our contract of approximately RMB0.6 million and the increase of input VAT of approximately RMB0.9 million. Our other payables further increased to approximately RMB8.1 million, mainly due to (i) increase in input VAT from approximately RMB0.9 million as at 31 December 2022 to approximately RMB2.4 million as at 31 December 2023; and (ii) increase in reimbursement payables in relation to the **[REDACTED]** incurred during the year ended 31 December 2023.

Our other tax payables include various government levies and taxes such as VAT, education surtax, urban construction tax, tenure tax, and real estate tax, amounting to approximately RMB7.3 million and RMB27.6 million, respectively, as at 31 December 2021 and 2022. The increasing trend was mainly due to increase in VAT which was consistent to our revenue growth. Our other tax payables decreased from approximately RMB27.6 million as at 31 December 2022 to approximately RMB10.7 million as at 31 December 2023, as a result of settlement of prior year other tax payables balance during the year ended 31 December 2023.

INDEBTEDNESS

As at 30 April 2024, being the latest practicable date for this indebtedness statement, our Group had outstanding indebtedness of approximately RMB115.5 million, which mainly consisted of (i) bank and other borrowings of approximately RMB112.6 million and (ii) lease liabilities of approximately RMB2.9 million.

The following table sets out our indebtedness as at the respective dates indicated:

	As at 31 December			As at 30 April
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Non-current				
Bank and other borrowings	33,000	24,000	39,500	42,350
Lease liabilities	—	—	1,904	1,524
	33,000	24,000	41,404	43,874
Current				
Bank and other borrowings	32,748	54,600	82,336	70,211
Amounts due to our Controlling Shareholders	33	—	—	—
Lease liabilities	—	—	2,504	1,387
	32,781	54,600	84,840	71,598
Total	65,781	78,600	126,244	115,472

Bank and other borrowings

As at 31 December 2021, 2022 and 2023 and 30 April 2024, we had total outstanding bank and other borrowings of approximately RMB65.7 million, RMB78.6 million, RMB121.8 million and RMB112.6 million, respectively. The following table sets forth our bank and other borrowings as of the dates indicated:

	As at 31 December			As at 30 April
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Secured bank loans	63,000	78,000	88,000	101,350
Secured other loans	—	—	9,982	—
Unsecured bank loans	2,748	600	23,854	11,211
	65,748	78,600	121,836	112,561
Current portion	(32,748)	(54,600)	(82,336)	(70,211)
Non-current portion	33,000	24,000	39,500	42,350

We recorded an increase of bank and other borrowings from approximately RMB78.6 million as at 31 December 2022 to approximately RMB121.8 million as at 31 December 2023, which was mainly attributed to (i) the net increase in use of unsecured banking facilities of approximately RMB23.3 million for procurement under our usual course of business; (ii) the increase in secured other loans of RMB10.0 million provided by a financial institution with the pledge of our properties, plant and equipment to supplement our working capital needs; and (iii) the net increase in secured bank loans of approximately RMB10.0 million.

The following table sets forth the maturity profile of our bank and other borrowings as at the dates indicated:

	As at 31 December			As at 30 April
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Within one year or on demand	32,748	54,600	82,336	70,211
In the second year	18,000	24,000	13,100	17,600
In the third to fifth years, inclusive	15,000	—	26,400	24,750
	65,748	78,600	121,836	112,561

For the years ended 31 December 2021, 2022 and 2023, the effective interest rates of our bank and other borrowings ranged from approximately 3.7% to 6.0%; 3.7% to 6.0% and 3.6% to 14.2%, respectively. Our bank and other borrowings were all dominated in RMB.

As at 31 December 2021, 2022 and 2023 and 30 April 2024, our bank and other borrowings were secured by (i) our Group's certain buildings included in property, plant and equipment; (ii) our then investment property; (iii) our Group's certain notes receivables and patents, and (iv) corporate or personal guarantees given by Mr. Lu Bo, Ms. Lu Xiaojing and Mr. Shao Song. For details of collaterals and guarantees of our secured bank borrowings, please refer to notes 17, 18 and 33 to the Accountants' Report in Appendix I to this document.

All personal guarantees provided by Mr. Lu Bo, Ms. Lu Xiaojing and Mr. Shao Song will be released upon **[REDACTED]** or replaced by corporate guarantee given by our Company or our subsidiaries.

Lease liabilities

Lease liabilities represent our obligations under the existing leases. Upon the application of HKFRS 16, as of the lease commencement date, we recognise the corresponding lease liabilities for our right-of-use assets, in respect of all leases unless they are qualified for low value or short-term leases. Our lease liabilities (current and non-current portion) amounted to approximately RMB4.4 million and RMB2.9 million, respectively, as at 31 December 2023 and 30 April 2024, comprised mainly of the lease of office premises and a production facility in the PRC during the year ended 31 December 2023.

Balances with our Controlling Shareholders

Amounts due from/to our Controlling Shareholders are unsecured, interest-free and repayable on demand. Outstanding amounts due from/to our Controlling Shareholders as at 31 December 2023 have been fully settled as at the Latest Practicable Date.

Banking facilities

As at 30 April 2024, being the latest practicable date for this indebtedness statement, we have undrawn banking facilities of approximately RMB46.4 million. Our Directors confirm that we did not experience any material default in repayment of borrowings, breach of covenants nor experience any difficulty in obtaining borrowings during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that during the Track Record Period and as at the Latest Practicable Date, there were no material covenants relating to our outstanding bank borrowings that would materially limit our ability to undertake additional debt or equity financing necessary to carry out our business plan.

Contingent liabilities

We did not have any material contingent liabilities as at 31 December 2021, 2022 and 2023, respectively.

Save as disclosed above, we did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material changes in our indebtedness since 30 April 2024 and up to the date of this document.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period principally consisted of additional items of property, plant and equipment. Our Group incurred capital expenditures of approximately RMB4.5 million, RMB2.1 million and RMB4.7 million for the years ended 31 December 2021, 2022 and 2023, respectively.

CONTRACTUAL OBLIGATIONS

Capital commitments

As at 31 December 2021, 2022 and 2023, our Group did not have any capital commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the historical financial information.

Other commitments

We did not have any lease contracts that have not yet commenced as at 31 December 2021, 2022 and 2023; and we did not have any other commitments as at 31 December 2021, 2022 and 2023 pursuant to the relevant accounting standards.

OFF-BALANCE SHEET ARRANGEMENTS

Our Directors confirm that we had not entered into any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had certain related party transactions with our Controlling Shareholders, details of which are set out in note 38 to the Accountants' Report in Appendix I to this document. Our Directors are of the view that the related party transactions were conducted at arm's length and on normal commercial terms and/or that such terms were no less favourable to us than terms available from Independent Third Parties which are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

[REDACTED]

[REDACTED]

DIVIDENDS

For the year ended 31 December 2021, our Company declared dividends of approximately USD2.8 million (equivalent to approximately RMB19.3 million) to the then shareholders. All of such dividends have been fully paid as at the Latest Practicable Date. On 29 May 2024, our Company declared to distribute dividends in the total amount of RMB20.0 million to the shareholders in proportion of their shareholding. Dividend payment of approximately RMB9.3 million was settled by offsetting with the amounts due from our Controlling Shareholders as at 31 December 2023, according to the agreement between the parties. Our Directors confirmed that all such declared dividend will be fully settled with internal resources upon **[REDACTED]**.

We do not have any fixed dividend policy nor pre-determined dividend payout ratio. The declaration of dividends is subject to the discretion of our Board. Any declaration of final dividend by our Company shall also be subject to the approval of our shareholders in a shareholders meeting. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure, future development requirements, Shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, applicable laws and regulations and approval of our Shareholders. As our Company is a holding company, our ability to declare and pay dividends will depend on the receipt of sufficient funds from our subsidiaries. Any future declarations and payments of dividends may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of our Directors.

DISTRIBUTABLE RESERVES

As at 31 December 2023, our Company had no reserves available for distribution to our Shareholders.

KEY FINANCIAL RATIOS

The table below sets out our key financial ratios for the years, or as at the dates indicated:

	Year ended 31 December		
	2021	**2022**	**2023**
Return on equity[(1)]	6.4%	15.2%	18.7%
Return on total assets[(2)]	3.1%	6.2%	7.9%
Interest coverage[(3)]	6.4 times	12.8 times	12.4 times
Gross profit margin[(4)]	28.6%	31.7%	35.2%
Net profit margin[(5)]	5.3%	8.7%	10.1%

	As at 31 December		
	2021	**2022**	**2023**
Current ratio[(6)]	1.6 times	1.4 times	1.6 times
Quick ratio[(7)]	1.3 times	1.3 times	1.4 times
Gearing ratio[(8)]	31.9%	32.7%	42.8%
Net debt to equity ratio[(9)]	25.5%	23.8%	27.3%

Notes:

(1) Return on equity is calculated based on the profit for the year divided by the total equity at the end of the respective year and multiplied by 100%.

(2) Return on total assets is calculated based on the profit for the year divided by the total assets at the end of the respective year and multiplied by 100%.

(3) Interest coverage is calculated based on profit before interest and tax divided by interest expenses for the respective year.

(4) Gross profit margin is calculated based on the gross profit for the year divided by revenue for the respective year and multiplied by 100%.

(5) Net profit margin is calculated based on the net profit for the year divided by revenue for the respective year and multiplied by 100%.

(6) Current ratio is calculated based on total current assets divided by total current liabilities as at the end of the respective year.

(7) Quick ratio is calculated based on total current assets less inventories and divided by total current liabilities as at the end of respective the year.

(8) Gearing ratio is calculated based on total debts divided by total equity as at the end of the respective year.

(9) Net debt to equity ratio is calculated based on the net debt (including borrowings less cash and cash equivalents) divided by total equity as at the end of the respective year.

Return on equity

Our return on equity increased from approximately 6.4% for the year ended 31 December 2021 to approximately 15.2% for the year ended 31 December 2022, which was mainly due to increase in our profit margin from approximately 5.3% for the year ended 31 December 2021 to approximately 8.7% for the year ended 31 December 2022. Return on equity further increased to approximately 18.7% for the year ended 31 December 2023 mainly attributable to the increase in our net profit for the year ended 31 December 2023.

Return on total assets

Our return on total assets increased from approximately 3.1% for the year ended 31 December 2021 to approximately 6.2% for the year ended 31 December 2022, which was mainly due to the increase in our profit margin for the year ended 31 December 2022. Our return on assets further increased to approximately 7.9% for the year ended 31 December 2023, mainly due to further improvement of our profit margin for the year ended 31 December 2023.

Interest coverage

Our interest coverage increased from approximately 6.4 times for the year ended 31 December 2021 to approximately 12.8 times for the year ended 31 December 2022, which was mainly because the increase of our profit before interest and taxes outweighed our increase of finance cost during the year ended 31 December 2022. Our interest coverage was approximately 12.4 times for the year ended 31 December 2023, which is similar to that of 2022.

Current ratio

Our current ratio remained relatively stable at approximately 1.6 times, 1.4 times and 1.6 times, respectively, as at 31 December 2021, 2022 and 2023, respectively.

Quick ratio

Our quick ratio was approximately 1.3 times, 1.3 times and 1.4 times as at 31 December 2021, 2022 and 2023, respectively, which was generally in line with the fluctuation in our current ratio.

Gearing ratio

Our gearing ratio maintained at relatively similar level at approximately 31.9% and 32.7% as at 31 December 2021 and 2022, respectively. Our gearing ratio increased to approximately 42.8% as at 31 December 2023, mainly due to the increase of our indebtedness as a result of new bank and other borrowings obtained and the recognition of lease liabilities upon the commencement of lease agreements for our office premises and a production facility, during the year ended 31 December 2023.

Net debt to equity ratio

Our net debt to equity ratio was maintained at a relatively similar level at approximately 26.5%, 23.8% and 27.3% as at 31 December 2021, 2022 and 2023.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

During the Track Record Period, we were principally subject to credit risk, liquidity risk, interest rate risk and currency risk arising in the normal course of our business. Please refer to note 6 to the Accountants' Report in Appendix I to this document.

PROPERTY INTERESTS

Our Directors confirm that, as at 31 December 2023, there were no circumstances that would give rise to a disclosure requirement under Rules 5.0 to 5.1 of the Listing Rules. As at 31 December 2023, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to section headed "Unaudited **[REDACTED]** Financial Information" in Appendix II to this document for details.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

See "Summary — Recent Developments and No Material Adverse Change" for further details of recent development of our Group. Saved as disclosed in "**[REDACTED]**" in this section, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial, operational or trading positions or prospects of our Company or its subsidiaries since 31 December 2023, being the end of the reporting period set out in the Accountants' Report included in Appendix I to this document, and there has been no event since 31 December 2023 which would materially affect the information shown in Appendix I to the document.