The following discussion of our Group's financial condition and results of operations should be read in conjunction with our Group's consolidated financial statements as at the end of and for each of FY2019, FY2020 and FY2021, including the notes thereto, included in Appendix I to this prospectus. The consolidated financial statements have been prepared in accordance with HKFRSs. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed ''Risk factors'' and elsewhere in this prospectus.

OVERVIEW

We are a PRC-based cigarette packaging paper manufacturer with research and development capabilities to supply customised products to our customers. We supply our products primarily to cigarette package manufacturers which operate in different provinces of the PRC, mainly including Hubei Province and Henan Province. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. During the Track Record Period, our products were used as cigarette packaging materials for at least nine cigarette brands which were recognised as the ''Dual 15 cigarette brands (雙十五煙草品牌)'' by the STMA. The ''Dual 15 cigarette brands (雙十五煙草品牌)'' represent the 15 cigarette brands which derived the highest sales from mid-to-high-end cigarettes in 2020 in the PRC. According to the Industry Report, we were ranked as the largest cigarette packaging paper manufacturer (in terms of revenue) in Hubei Province in 2020, with a market share of approximately 14.9% in Hubei Province. For further details of our business, please refer to the paragraph headed ''Business — Business overview'' in this prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below and in the section headed ''Risk factors'' in this prospectus.

Our sales of cigarette packaging paper are dependent on the PRC legislative and regulatory control on cigarette consumption and awareness of health concerns

According to our PRC Legal Advisers, the PRC Government has promulgated a series of legislative and regulatory control on the cigarette industry and health promotion initiatives. Major legislative and regulatory control and initiatives include:

- Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) which took effect on 1 April 1987 and was last amended on 23 April 2019, and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which took effect on 1 May 2011 and was subsequently amended on 19 January 2016 and 26 December 2017, prohibits smoking in indoor public areas. Conspicuous no-smoking warnings and signs shall be set up in public operations. Various provincial and municipal government authorities such as Beijing, Shanghai, Shenzhen and another 16 provinces had issued their detailed rules on smoking control in public areas in recent years;

- The Provisions of Regulating the Packaging and Labeling of Domestic Sales of Tobacco (《關於規範境內銷售捲煙包裝標識的規定》), which came into effect on 1 January 2006, requires, amongst others, the warning statement of "Smoking is harmful (吸煙有害健康)" to be shown on cigarette packages and the tobacco manufacturers are responsible for ensuring the compliance with such provisions. The latest announcement "Notice of China National Tobacco Corporation on Further Strengthening the Labeling of Warning Signs on Cigarette Packages (《中國煙草總公司關於進一步加大捲煙包裝警語標識力度的通知》)" issued in 2011, amongst others, prescribes additional requirements on the font size of the warning statement and colour difference for the relevant backgrounds;

- The Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), which was last amended by the Standing Committee of the National People's Congress on 29 April 2021, prohibits the publication of tobacco advertisements in the mass media or public places, public transportation and outdoors;

- The "Healthy China 2030" Planning Outline (《健康中國2030規劃綱要》), which was issued by the State Council of the PRC in October 2016, emphasised the need to comprehensively push forward the implementation of tobacco control agreements, intensify tobacco control efforts, and improve the effectiveness of tobacco control through pricing, taxation, and legal means. Further publicity and education on tobacco control will be carried out. The PRC Government will actively promote a smoke-free environment, strengthen the supervision and law enforcement of tobacco control in public places and target to reduce the smoking rate among people aged 15 or above to 20% by 2030;

- The Law of the People's Republic of China on the Promotion of Basic Medical and Health Care (《中華人民共和國基本醫療衛生與健康促進法》) was issued by the Standing Committee of the National People's Congress on 1 June 2020 for the purposes of developing the medical and health care cause, ensuring that citizens enjoy basic medical services, improving the health care level of citizens, and promoting the construction of healthy China according to the Constitution of the PRC. The PRC Government will take measures to reduce the harm of smoking to the health of citizens, and control smoking in public places. Supervision and law enforcement will be strengthened. Tobacco product packaging should be printed with warnings describing the dangers of smoking. The sale of tobacco to minors is prohibited.

There is no assurance that the PRC Government will not promulgate any further legislative or regulatory control measures on the PRC cigarette market or industry. In the event that any such measures are promulgated, cigarette consumption and the size of the overall PRC cigarette market may further shrink, as a result of which the demand for cigarette packaging paper may also be negatively affected. If cigarette consumption and demand for cigarette packaging paper decrease, our business and results of operations could be materially and adversely affected.

The global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarette, which in turn would affect the demand for cigarette packaging in the PRC and our sales of cigarette packaging paper. As our revenue was derived from business relating to the sales of cigarette packaging paper during the Track Record Period, in the event that cigarette demand in the PRC shrinks significantly and we are unable to promptly shift our product mix and customer base to other end markets, our business, results of operations, financial conditions and future prospects could be adversely affected.

Our competitiveness depends, to a larger extent, on our ability to expand production capacity and product range

Our competitiveness depends, to a larger extent, on our ability to expand production capacity and product range, in order to increase our market share. We manufactured our products in our production facility located in Hubei Province, the PRC. The actual production volumes of our production facility were approximately 23,352 tonnes, 22,749 tonnes and 26,733 tonnes and the effective utilisation rates were approximately 83.3%, 97.4% and 95.4% for FY2019, FY2020 and FY2021, respectively. For more information about our production capacity and utilisation rates, please refer to the paragraph headed ''Business — Production facility and capacity'' in this prospectus. Given the utilisation rates of our production facility have reached a relatively high level as mentioned above, our Directors believe that it is critical to expand our production capacity in order to capture the expected growth in sales volume and sales value of cigarette packaging paper in the PRC as stated in the Industry Report.

We will continue to expand our production capacity and product range to capture market opportunities. For details of our future expansion plans, please refer to the section headed ''Future plans and use of proceeds'' in this prospectus.

Our business strategies are subject to significant business, economic and competitive uncertainties and contingencies in the market, many of which are beyond our control and may delay or increase the costs of implementation. Such uncertainties and contingencies may include, inability to finance or obtain capital to finance our expansion plans, delays in the delivery and installation of machinery and equipment, labour shortage and related issues, raw materials and other cost increases or the promulgation of new laws and regulations related to environmental protection, delays or failure in securing the necessary governmental approvals and downturn in the economy. If we are unable to further expand our production capacity and product range, we may lose our competitiveness in the market, which could materially and adversely affect our financial condition and results of operations, as well as the growth of our revenue and profits.

The demand for our cigarette packaging paper is affected by the demand for cigarettes in the PRC, which in turn is subject to the prices of cigarettes and economic conditions in the PRC

We supply our products mainly to cigarette package manufacturers which operate in different provinces of the PRC. To a much lesser extent, some of our customers are trading companies which on-sell our products to cigarette package manufacturers. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. Therefore, demand for our cigarette packaging paper is highly associated with the demand for cigarettes in the PRC.

Demand for cigarettes is dependent on, amongst other factors, prices of cigarettes and economic conditions in the PRC. For instance, increase in tobacco tax imposed by the PRC Government may result in an increase in retail prices of cigarettes and adversely affect the demand for cigarettes. Likewise, the demand for cigarettes is influenced by the purchasing power and preferences of consumers which is dependent on the PRC economic conditions. Any downturn in the PRC economic conditions or outlook may adversely affect the demand for cigarettes.

Any potential decline in the demand for cigarettes due to increase in cigarette prices or downturn in the PRC economic conditions may have a material adverse impact on our business, financial conditions, results of operations and growth prospects.

Fluctuation in our cost of sales

Our cost of sales mainly comprised of raw materials and goods used, direct labour, utilities and depreciation. We source raw materials such as white cardboard, film and other accessory materials such as glue and ink from various suppliers in the PRC. Please refer to the paragraph headed "Business — Our suppliers" in this prospectus for more information.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of the major component of our cost of sales, namely, costs of raw materials and goods used, on our profit before income tax during the Track Record Period. The hypothetical fluctuation rate for white cardboard and film (as represented by its key raw materials including BOPP, PET and aluminum foil) which are the major raw materials used in our production, is set at 0.2% and 4.2%, respectively, which correspond to the approximate minimum and maximum CAGR percentage changes in the average price of such raw materials in the PRC from 2016 to 2021 as stated in the Industry Report, and are therefore considered reasonable for the purpose of this sensitivity analysis.

Hypothetical fluctuations in our raw materials and goods used	-0.2%	-4.2%	+0.2%	+4.2%
Increase/(decrease) in profit before income tax *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
FY2019	469	9,864	(469)	(9,864)
FY2020	475	9,965	(475)	(9,965)
FY2021	553	11,615	(553)	(11,615)

Note: Our profit before income tax was approximately RMB39.0 million, RMB48.4 million and RMB42.1 million for FY2019, FY2020 and FY2021, respectively.

BASIS OF PRESENTATION AND PREPARATION OF FINANCIAL INFORMATION

Please refer to note 1.3 and 2.1 of the Accountant's Report as set out in Appendix I to this prospectus.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The financial information of our Group has been prepared in accordance with accounting policies which conform with HKFRSs. The significant accounting policies adopted by our Group are set forth in detail in note 2 to the Accountant's Report as set out in Appendix I to this prospectus, while the critical accounting estimates and judgements adopted by our Group are set forth in note 4 to the Accountant's Report as set out in Appendix I to this prospectus.

Impairment of trade and bills receivables

Our Group's management determines the provision for impairment of trade and bills receivables and the expected lifetime losses are recognised from initial recognition of the assets. For trade receivables, the expected credit losses are determined based on our Group's historical observed default rates and market credit loss rate over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. For bills receivable, the expected credit losses are mainly assessed by taking into account the credit rating for issuing financial institutions and is adjusted for forward-looking estimates. In making the judgement, our Group's management considers available reasonable and supportive forward-looking information such as actual or expected significant changes in the operating results of customers or issuing financial institutions, actual or expected significant adverse changes in business and customers or issuing financial institutions' financial position including, among others, the economic impact of the unprecedented COVID-19 pandemic on the customers or issuing financial institutions and the regions in which they operate. At every reporting date, historical observed default rates and market credit loss rate are updated (for trade receivables) and the credit rating for issuing financial institutions (for bills receivable) and changes in the forward-looking estimates are analysed by our Group's management. For details, please refer to note 3.1.2 of the Accountant's Report in Appendix I to this prospectus.

Net realisable value of inventories

Our Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgment and estimates. These estimates are based on the market condition and the historical experience of selling prices of similar nature. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed.

Estimated useful lives of property, plant and equipment

Our Group's management determines the estimated useful lives, and related depreciation charges for our property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Our management will increase the depreciation charges where useful lives are less than previously estimated lives. We will write off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

Current and deferred income tax

Our Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Our Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when our management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimates, such difference will impact the recognition of deferred tax assets and income tax in the period in which such estimates are changed.

SUMMARY OF RESULTS OF OPERATIONS

The consolidated statements of comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountant's Report set out in Appendix I to this prospectus:

	FY2019	FY2020	FY2021
	RMB'000	*RMB'000*	*RMB'000*
Revenue	312,800	318,346	370,311
Cost of sales	(247,050)	(248,236)	(288,522)
Gross profit	65,750	70,110	81,789
Selling expenses	(8,133)	(7,153)	(10,123)
Administrative expenses	(16,985)	(15,700)	(32,389)
Net impairment (losses)/reversal of impairment on financial assets	(2,041)	(1,755)	474
Other income	1,549	3,347	1,972
Other gains — net	44	451	100
Operating profit	40,184	49,300	41,823
Finance income	214	236	1,070
Finance costs	(1,361)	(1,171)	(825)
Finance (costs)/income — net	(1,147)	(935)	245
Profit before income tax	39,037	48,365	42,068
Income tax expense	(4,740)	(6,194)	(6,381)
Profit for the year	34,297	42,171	35,687
Other comprehensive income for the year	—	—	—
Total comprehensive income for the year attributable to			
Owners of the Company	34,297	42,171	35,687

PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

Revenue

We generated our revenue mainly from the sale of cigarette packaging paper during the Track Record Period, and our products are categorised into (i) transfer paper; (ii) laminated paper; and (iii) frame paper. To a much lesser extent, we also provide cigarette packaging paper processing services to our customers. We generated revenue of approximately RMB312.8 million, RMB318.3 million and RMB370.3 million for FY2019, FY2020 and FY2021, respectively. Our revenue is generally affected by the selling price and sales volume of our products. Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of the change in our revenue during the Track Record Period.

Revenue breakdown by product and service type

The following table sets forth a breakdown of (i) our revenue, sales volume and average selling price by type of our cigarette packaging paper; and (ii) revenue generated from the provision of cigarette packaging paper processing services during the Track Record Period:

	FY2019				FY2020				FY2021			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000		*tonnes*	*RMB per tonne*	*RMB'000*		*tonnes*	*RMB per tonne*	*RMB'000*		*tonnes*	*RMB per tonne*
Sale of cigarette packaging paper												
— Transfer paper	246,017	78.6	16,162	15,200	253,250	79.6	17,326	14,600	312,741	84.5	20,357	15,400
— Laminated paper	61,414	19.6	5,517	11,100	59,616	18.7	5,553	10,700	55,889	15.1	5,137	10,900
— Frame paper	2,328	0.8	312	7,500	1,486	0.4	175	8,500	1,594	0.3	180	8,800
Sub-total	309,759	99.0	21,991		314,352	98.7	23,054		370,224	99.9	25,674	
Provision of cigarette packaging paper processing services	3,041	1.0			3,994	1.3			87	0.1		
Total	312,800	100.0			318,346	100.0			370,311	100.0		

Revenue generated from sale of transfer paper accounted for approximately 78.6%, 79.6% and 84.5% of our total revenue for FY2019, FY2020 and FY2021, respectively, being the product type with the largest revenue contribution. Please refer to the paragraph headed ''Period-to-period comparison of results of operations'' in this section for the reasons of the fluctuations in our revenue during the Track Record Period.

Our revenue generated from the provision of cigarette packaging paper processing services increased from approximately RMB3.0 million for FY2019 to approximately RMB4.0 million for FY2020 and decreased to approximately RMB87,000 for FY2021, which mainly depends on the demand from customers such as Hubei Golden Three Gorges from time to time during the Track Record Period.

Revenue breakdown of our product sales by the categories of cigarettes

During the Track Record Period, a majority of our revenue was derived from the sales of cigarette packaging paper products applied for mid-to-high-end cigarettes. The table below sets forth a breakdown of revenue of our sales of cigarette packaging paper products by the categories of cigarettes during the Track Record Period:

	FY2019		**FY2020**		**FY2021**	
	Revenue		**Revenue**		**Revenue**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Mid-to-high-end cigarettes *(Note 2)*	292,787	94.5	296,881	94.4	358,652	96.9
Low-end cigarettes *(Note 3)*	16,972	5.5	17,471	5.6	11,572	3.1
Total	309,759	100.0	314,352	100.0	370,224	100.0

Notes:

1. The classification of our products by the tiers of cigarettes that our products were applied for was compiled based on information provided by our customers and Ipsos, and the product description set out in the framework sales agreements and/or purchase orders.

2. Mid-to-high-end cigarettes represent tier 1 to tier 3 cigarettes, with retail price at or above RMB6 per box.

3. Low-end cigarettes represent tier 4 to tier 5 cigarettes, with retail price below RMB6 per box.

During the Track Record Period, our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of mid-to-high-end cigarettes increased from approximately RMB292.8 million for FY2019 to approximately RMB296.9 million for FY2020, and further increased to approximately RMB358.7 million for FY2021. The significant increase in the sales of cigarette packaging paper products applied for mid-to-high-end cigarettes in FY2021 was mainly due to the increase in demand for mid-to-high-end cigarettes as a result of the continuation of the focus of cigarette industry towards mid-to-high-end cigarettes with government's policy on promoting mid-to-high-end cigarette as discussed under the paragraph headed ''Industry Overview — Industry drivers and opportunities'' in this prospectus. Our Directors believe that we are wellpositioned to capture the growing demand for mid-to-high-end cigarette packaging paper in the PRC mainly because of our production capability and ability in manufacturing quality cigarette packaging paper for the use by mid-to-high-end cigarette brands.

During the Track Record Period, our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of low-end cigarettes slightly increased from approximately RMB17.0 million for FY2019 to approximately RMB17.5 million for FY2020, then decreased to approximately RMB11.6 million for FY2021. The decrease in the sales of cigarette packaging paper products applied for low-end cigarettes in FY2021 was mainly due to (i) the decrease in sales of cigarette packaging paper for the use in the manufacturing of products under one brand to Hubei Xinjiarui by approximately RMB3.4 million in FY2021 due to the loss of tender of Hubei Xinjiarui in the supply of cigarette packages for such brand; (ii) the decrease in sales of cigarette packaging paper for the use in the manufacturing of products under one brand to three different customers by approximately RMB1.7 million in FY2021; and (iii) the continuation of the focus of cigarette industry towards mid-to-high-end cigarettes packaging paper products as discussed above.

Revenue breakdown by geographical locations of our customers

Our customers are all situated in China, and a majority of them are situated in Hubei Province and Henan Province. The following table sets forth a breakdown of our revenue by geographical locations of our customers during the Track Record Period:

	FY2019		**FY2020**		**FY2021**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Hubei Province	166,038	53.1	186,063	58.4	166,162	44.9
Henan Province	63,883	20.4	94,500	29.7	121,230	32.7
North-east China *(Note 1)*	34,910	11.2	16,959	5.3	44,165	11.9
East China *(Note 2)*	11,280	3.6	13,138	4.1	33,266	9.0
Others *(Note 3)*	36,689	11.7	7,686	2.5	5,488	1.5
Total	312,800	100.0	318,346	100.0	370,311	100.0

Notes:

1. North-east China mainly include Liaoning Province, Jilin Province and Heilongjiang Province.

2. East China mainly include Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.

3. Others mainly include Guangdong Province, Shaanxi Province and Chongqing Municipality.

Please refer to the paragraph headed "Business — Our customers — Sales by geographical locations of our customers" in this prospectus for the reasons of fluctuations in revenue by geographical locations.

Cost of sales

Our cost of sales consisted of raw materials and goods used, direct labour, utilities, depreciation and other cost of sales. The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Raw materials and goods used	234,430	94.9	237,253	95.6	276,548	95.8
Direct labour	4,753	1.9	4,068	1.6	4,153	1.4
Utilities	3,193	1.3	2,905	1.2	4,022	1.4
Depreciation	2,392	1.0	2,452	1.0	2,479	0.9
Others	2,282	0.9	1,558	0.6	1,320	0.5
Total	247,050	100.0	248,236	100.0	288,522	100.0

Our cost of sales during the Track Record Period comprised:

(a) raw materials and goods used, which included white cardboard, film and other raw materials such as ink and glue used in our production;

(b) direct labour costs consisted of salaries, wages and benefits of our workers directly engaged in production;

(c) utilities, which mainly represented the electricity costs for our production facility.

(d) depreciation, which mainly represented the depreciation expenses of our buildings and machinery; and

(e) others, which mainly include maintenance fees and other overheads incurred in our production.

Please refer to the paragraph headed"Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our cost of sales during the Track Record Period.

Gross profit and gross profit margin

Our gross profit was approximately RMB65.8 million, RMB70.1 million and RMB81.8 million for FY2019, FY2020 and FY2021, respectively. Our gross profit margin was approximately 21.0%, 22.0% and 22.1% for FY2019, FY2020 and FY2021, respectively. For the fluctuations of our gross profit and gross profit margin during the Track Record Period, please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section.

Gross profit and gross profit margin by product and service type

Our gross profit and gross profit margin by product and service type during the Track Record Period are set out below:

	FY2019		FY2020		FY2021	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cigarette packaging paper						
— Transfer paper	49,818	20.2	54,713	21.6	74,572	23.8
— Laminated paper	12,735	20.7	11,732	19.7	6,952	12.4
— Frame paper	438	18.8	426	28.7	190	11.9
Sub-total	62,991	20.3	66,871	21.3	81,714	22.1
Cigarette packaging paper processing services	2,759	90.7	3,239	81.1	75	86.2
Total	65,750	21.0	70,110	22.0	81,789	22.1

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our gross profit and gross profit margin by product type during the Track Record Period.

Our gross profit of cigarette packaging paper processing services increased from approximately RMB2.8 million for FY2019 to approximately RMB3.2 million for FY2020 and decreased to approximately RMB75,000 for FY2021, which was mainly due to the fluctuation in the revenue generated from the provision of cigarette packaging paper processing services during the Track Record Period. Our gross profit margin of cigarette packaging paper processing service was approximately 90.7%, 81.1% and 86.2% for FY2019, FY2020 and FY2021, respectively. As the customers are responsible for the procurement of raw materials which they will provide us for further processing, we incurred labour costs, depreciation and utilities costs, thereby leading to high gross profit margin for our cigarette packaging paper processing services. The relatively lower gross profit margin for FY2020 was mainly due to the higher depreciation and utilities costs allocated as a result of higher utilisation of machinery for the production of the cigarette packaging paper processing services during certain months of FY2020.

Gross profit and gross profit margin of our product sales by the categories of cigarettes

The table below sets forth a breakdown of gross profit and gross profit margin of our sales of cigarette packaging paper products by the categories of cigarettes during the Track Record Period:

	FY2019		FY2020		FY2021	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Mid-to-high-end cigarettes *(Note 2)*	59,187	20.2	62,583	21.1	79,860	22.3
Low-end cigarettes *(Note 3)*	3,804	22.4	4,288	24.5	1,854	16.0
Total	62,991	20.3	66,871	21.3	81,714	22.1

Notes:

1. The classification of our products by the tiers of cigarettes that our products were applied for was compiled based on information provided by our customers and Ipsos, and the product description set out in the framework sales agreements and/or purchase orders.

2. Mid-to-high-end cigarettes represent tier 1 to tier 3 cigarettes, with retail price at or above RMB6 per box.

3. Low-end cigarettes represent tier 4 to tier 5 cigarettes, with retail price below RMB6 per box.

During the Track Record Period, the gross profit of the sales of cigarette packaging paper for the use in the manufacture of mid-to-high-end cigarettes increased from approximately RMB59.2 million for FY2019 to approximately RMB62.6 million for FY2020, and further increased to approximately RMB79.9 million for FY2021, while the gross profit margin remained relatively stable at approximately 20.2%, 21.1% and 22.3% for FY2019, FY2020 and FY2021, respectively. The increase in gross profit from approximately RMB62.6 million for FY2020 to approximately RMB79.9 million for FY2021 was mainly due to the increase in revenue as discussed above.

During the Track Record Period, the gross profit of the sales of cigarette packaging paper for the use in the manufacture of low-end cigarettes increased from approximately RMB3.8 million for FY2019 to approximately RMB4.3 million for FY2020 and decreased to approximately RMB1.9 million for FY2021, which was generally in line with the fluctuation in revenue as discussed above. The gross profit margin remained relatively stable at approximately 22.4% for FY2019 and approximately 24.5% for FY2020, and decreased to approximately 16.0% for FY2021. Such decrease in FY2021 was mainly attributable to the decrease in sales of cigarette packaging paper for the use in the manufacturing of products under one brand to Hubei Xinjiarui in FY2021 as discussed above.

Selling expenses

The following table sets forth a breakdown of our selling expenses during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Freight charges	4,645	57.1	4,105	57.4	5,302	52.4
Salaries and benefits	1,948	24.0	1,626	22.7	2,632	26.0
Travelling and entertainment expenses	1,350	16.6	1,202	16.8	1,948	19.2
Others	190	2.3	220	3.1	241	2.4
Total	8,133	100.0	7,153	100.0	10,123	100.0

Our selling expenses during the Track Record Period mainly comprised of:

(a) freight charges, which was the costs incurred in relation to the delivery of our cigarette packaging paper to our customers;

(b) salaries and benefits, which represented the salaries, benefits and contributions to defined contribution retirement benefit plans for our marketing staff;

(c) travelling and entertainment expenses, which was the costs incurred for our marketing activities; and

(d) others, which mainly represented motor vehicles expenses incurred by our marketing staff.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our selling expenses during the Track Record Period.

Administrative expenses

The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Research and development expenses	10,713	63.1	10,394	66.2	13,115	40.5
Staff costs, including directors' emolument	3,585	21.1	2,839	18.1	3,676	11.3
Travelling and entertainment expenses	916	5.4	795	5.1	893	2.8
Depreciation	649	3.8	663	4.2	668	2.1
Costs of security and cleaning	274	1.6	175	1.1	130	0.4
Tax surcharges	256	1.5	173	1.1	298	0.9
Office expense	174	1.0	164	1.0	205	0.6
Listing expenses	—	—	—	—	12,700	39.2
Others	418	2.5	497	3.2	704	2.2
Total	16,985	100.0	15,700	100.0	32,389	100.0

Our administrative expenses during the Track Record Period mainly comprised of:

(a) research and development expenses, which mainly represented our costs incurred on improving our production efficiency and expanding our product offerings, including raw materials consumed in our research and development and staff costs. Please refer to the paragraph headed "Business — Research and development" in this prospectus for more information in relation to our research and development projects.

(b) staff costs, including directors' emolument, which represented salaries, benefits and contribution to defined contribution retirement benefit plans for our Directors and finance and administration staff;

(c) travelling and entertainment expenses, which represented the transportation expenses incurred by our administration staff for our Group's daily business operations and expenses in relation to internal company functions;

(d) depreciation, which mainly represented the depreciation expenses of our buildings, motor vehicles, leasehold land use right and electronic and other equipments, etc.;

(e) costs of security and cleaning, which represented the security and cleaning expenses for the daily operations of our Group generally;

(f) tax surcharges, which represented tax expenses including stamp duty, property tax and land tax;

(g) office expense, which mainly represented the expenses for printing, stationary and telecommunication, etc;

(h) listing expenses, which represented the expenses in relation to the Listing; and

(i) others, which mainly represented expenses for utilities, office maintenance fees and other miscellaneous expenses.

Net impairment (losses)/reversal of impairment on financial assets

Our net impairment losses/reversal of impairment on financial assets mainly represented the provision for/reversal of loss allowances for trade and bills receivables. Our net impairment losses on financial assets decreased slightly form approximately RMB2.0 million for FY2019 to approximately RMB1.8 million for FY2020 mainly attributable to the decrease in the gross carrying amount of our trade and bills receivables from approximately RMB184.8 million as at 31 December 2019 to approximately RMB157.0 million as at 31 December 2020.

We recorded a reversal of impairment on financial assets of approximately RMB0.5 million mainly due to the decrease in the gross carrying amount of our trade and bills receivables from approximately RMB157.0 million as at 31 December 2020 to approximately RMB150.0 million as at 31 December 2021. For details, please refer to note 3.1.2 of the Accountant's Report as set out in Appendix I to this prospectus.

Other income

The table below sets forth a breakdown of our other income during the Track Record Period:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Government grants related to income	276	148	242
Sales of raw and waste materials, net	1,204	3,058	1,561
Amortisation of deferred income	22	42	42
Others	47	99	127
	1,549	3,347	1,972

Our other income during the Track Record Period mainly comprised of:

(a) government grants related to income, which mainly represented the grants received by our Group from the PRC Government to reward our Group's contribution to the local economic growth, and all government grants received by our Group during the Track Record Period were one-off in nature;

(b) sales of raw and waste materials, net, which represented the net income generated from (i) the sales of raw materials; and (ii) the sales of waste materials in relation to the leftover materials scrapped from our finished goods as a result of customising the sizes of our cigarette packaging paper according to our customers' requirements; and

(c) amortisation of deferred income, which represented the amortisation of the government grants received by our Group in relation to the purchase of land use right.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for a discussion of material fluctuations in our other income.

Other gains — net

The table below sets forth a breakdown of our other gains during the Track Record Period:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Other gains			
— Dividend income from financial assets at fair value through profit or loss ("**FVPL**")	22	448	308
— Gain on disposal of property, plant and equipment	12	—	4
— Exchange gains	—	—	54
— Others	10	3	75
	44	451	441
Other losses			
— Bank charges on bills receivable discounted to banks	—	—	(339)
— Others	—	—	(2)
	—	—	(341)
Other gains — net	44	451	100

Our other gains during the Track Record Period mainly comprised of:

(a) dividend income from financial assets at FVPL, which represented dividend income derived from our Group's financial assets at FVPL consisting of certain non-capital protected wealth management products denominated in RMB and issued by reputable banks in the PRC, which primarily invested in listed or unlisted securities and bonds;

(b) gain on disposal of property, plant and equipment, which represented our gain on the disposal of laminating machine to an independent third party trading company; and

(c) bank charges on bills receivable discounted to banks, which represented the bank charges for discounting bills to banks prior to the maturity dates.

Finance (costs)/income — net

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
— Interest income on bank deposits and restricted cash	214	236	1,070
Finance costs			
— Interest expenses on bank borrowings	(1,359)	(1,170)	(825)
— Interest expenses on lease liabilities	(2)	(1)	—
	(1,361)	(1,171)	(825)
Finance (costs)/income — net	(1,147)	(935)	245

We recorded a net finance income of approximately RMB0.2 million for FY2021, and we recorded a net finance costs of approximately RMB1.1 million and RMB0.9 million for FY2019 and FY2020 respectively.

Our finance income mainly comprised of interest income on bank deposits and restricted cash, which amounted to approximately RMB0.2 million, RMB0.2 million and RMB1.1 million for FY2019, FY2020 and FY2021, respectively.

Our finance costs mainly comprised of interest expenses on bank borrowings and interest expenses on lease liabilities, which amounted to approximately RMB1.4 million, RMB1.2 million and RMB0.8 million for FY2019, FY2020 and FY2021, respectively.

Please refer to the paragraph headed "Indebtedness — Bank borrowings" in this section for details of our bank borrowings and the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our finance income and finance costs during the Track Record Period.

Income tax expense

The income tax expense for the period is the tax paid or payable by us on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Cayman Islands and BVI profits tax

Our Group is incorporated in the Cayman Islands as an exempted company and is not liable for taxation in the Cayman Islands. Our Group's subsidiary incorporated in the BVI is also an exempted company and is not liable for taxation in the BVI.

Hong Kong profits tax

Subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at a rate of 16.5%. No provision for Hong Kong profits tax has been made as our Group did not have estimated assessable profit in Hong Kong during the Track Record Period.

The PRC withholding tax

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding tax. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%. The applicable withholding tax rates of our Group in Hong Kong is 10% after the completion of the Reorganisation.

The PRC Enterprise Income Tax

Our Group's subsidiary incorporated in the PRC has obtained the approvals to become a new and high-technology enterprise and is entitled to a preferential income tax rate of 15% on the estimated assessable profits for the Track Record Period.

The following table sets forth the breakdown of our income tax expense of our Group during the Track Record Period:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Current income tax			
— The PRC income tax	4,717	6,443	6,313
Deferred income tax	23	(249)	68
Income tax expense	4,740	6,194	6,381

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that has been effective from 2018 onwards, enterprises engaging in research and development activities are entitled to claim 175% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The additional tax deducting amount of the qualified research and development expenses has been increased from 175% to 200% for manufacturing enterprises, effective from 2021, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in March 2021. Our Group has considered the Super Deduction to be claimed for our Group entities in ascertaining our assessable profits during the Track Record Period.

The tax on our Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profit of our PRC subsidiary as follows:

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,037	48,365	42,068
Tax calculated at the preferential tax rate of 15%	5,856	7,255	6,310
Expenses not deductible for tax purposes	93	88	2,038
Super deduction for research and development expenses	(1,209)	(1,149)	(1,967)
Income tax expense	4,740	6,194	6,381

Our effective tax rates were approximately 12.1%, 12.8% and 15.2% for FY2019, FY2020 and FY2021, respectively. Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons of the fluctuations in our income tax expense and effective tax rates during the Track Record Period.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2019 compared with FY2020

Revenue

Despite the impact of the outbreak of COVID-19, our revenue increased slightly from approximately RMB312.8 million for FY2019 to approximately RMB318.3 million for FY2020. During the first quarter of FY2020, the business of our Group was substantially disrupted by the outbreak of COVID-19, in particular, transport was severely restricted and manufacturing companies like our Group, was ordered to suspend operations by the PRC Government during the lockdown period in Huanggang, Hubei Province, from 23 January 2020 to 25 March 2020 as discussed in the paragraph headed "Business — Impact of the outbreak of COVID-19 on our operations" in this prospectus. Our business suspension during the lockdown period had led to a significant decrease in the revenue of our Group recognised during the three months ended 31 March 2020 of approximately RMB35.4 million as compared to the three months ended 31 March 2019 of approximately RMB78.2 million. However, following the resumption of our Group's operations in full scale since late-March 2020, our Group was able to recoup the operational and financial losses due to the COVID-19 and our revenue subsequently increased substantially from approximately RMB234.6 million for the nine months ended 31 December 2019 to approximately RMB282.9 million for the nine months ended 31 December 2020. Subsequent to our resumption of business operations, our production facility was operated at a high utilisation level to fulfill the purchase orders in the remaining period of the year. Specifically, we arranged our workers to work overtime immediately after the lockdown period, to fulfil the volume of purchase orders received by us prior to the lockdown period, while the utilisation rates of our production facility was approximately 131.5% and 112.9% for the months of April and May 2020, respectively. Once the transportation resumed, our Group managed to complete the delivery of purchase orders received prior to the lockdown period by April 2020. Besides, our marketing staff worked closely with our customers after the lockdown period to understand their product needs and production target for the remaining period of 2020, and the resumption of our operations and high utilisation of our production facility enabled us to fulfil the increased purchase orders from our customers in order to recoup the sales volume as originally planned for the year.

In general, the revenue contribution from our sales of transfer paper had increased from approximately RMB246.0 million for FY2019 to approximately RMB253.3 million for FY2020, given that the sales volume of transfer paper increased from approximately 16,162 tonnes for FY2019 to approximately 17,326 tonnes for FY2020.

Cost of sales

Our cost of sales increased slightly from approximately RMB247.1 million for FY2019 to approximately RMB248.2 million for FY2020, representing an increase of approximately 1.1 million or 0.4%, which was generally in line with the increase in our overall revenue of approximately 1.8% for the corresponding financial year. Our direct labour costs decreased from approximately RMB4.8 million for FY2019 to approximately RMB4.1 million for FY2020, which was mainly due to (i) the decrease in number of employees in production and quality control departments during FY2020 while our actual production volume slightly decreased in FY2020; and (ii) the partial exemption of social insurance contributions in accordance with the government policy in FY2020. Our utilities costs decreased from approximately RMB3.2 million for FY2019 to approximately RMB2.9 million FY2020, representing a decrease of approximately 9.0%. Such decrease was mainly due to the (i) the decrease in our actual production volume by approximately 2.6% from FY2019 to FY2020; and (ii) the 5% discount on electricity costs announced by the local government from February to December 2020 due to the outbreak of COVID-19, from which we had saved electricity costs of approximately RMB146,000 in FY2020.

Gross profit and gross profit margin

Our Group's gross profit remained relatively stable at approximately RMB65.8 million and RMB70.1 million for FY2019 and FY2020, respectively, and given that the increase in our cost of sales was generally in line with the increase in our overall revenue for the corresponding financial year, our Group's gross profit margin remained relatively stable at approximately 21.0% for FY2019 and approximately 22.0% for FY2020.

Our gross profit margin of transfer paper and laminated paper remained broadly stable, changing from approximately 20.2% and 20.7% respectively for FY2019 to approximately 21.6% and 19.7% respectively for FY2020. Despite the slight decrease in our average selling price of the transfer paper and laminated paper from FY2019 to FY2020, the relatively stable gross profit margin for FY2019 and FY2020 was mainly due to (i) the decrease in unit costs of two types of white cardboards, namely Hongta red fiber white cardboard (紅塔紅纖白卡) and Hongta primary fiber white cardboard (紅塔本纖白卡), supplied by Zhuhai Hongta Renheng Paper Industry Co., Ltd.* (珠海紅塔仁恒包裝股份有限公司) ("**Zhuhai Hongta**"), Supplier B, Wuhan Jinfengda Paper Co., Ltd.* (武漢金豐達紙業有限公司) ("**Wuhan Jinfengda**") and Shenzhen Bolida Paper Industry Co., Ltd.* (深圳市博立達紙業有限公司) ("**Shenzhen Bolida**") during FY2020. To the best of our Directors' knowledge and according to the Industry Report, Zhuhai Hongta is the ultimate supplier and manufacturer of both Hongta red fiber white cardboard and Hongta primary fiber white cardboard. Hongta red fiber white cardboard and Hongta primary fiber white cardboard involved special anti-counterfeiting features (the "**Special Technical Features**"). Prior to 2020, there were a limited number of paper product suppliers in the PRC which possessed the required technical knowledge and production skills in manufacturing white cardboards with similar Special Technical Features, resulting in limited alternative products available in the PRC paper industry. Subsequently, other paper products manufacturers in the PRC have also developed white cardboards with technical specifications similar to Hongta red fiber white cardboard or Hongta primary fiber white cardboard, resulting in an emergence of alternative suppliers capable of producing white cardboards with the Special Technical Features. The emergence of alternative suppliers and increase in supply of white cardboards with Special Technical Features in the PRC paper industry has created downward pressure on the average selling price of Hongta red fiber white cardboard and Hongta primary fiber white cardboard by approximately 6.8% and 9.0% per tonne from FY2019 to FY2020, respectively. In order to maintain the price competitiveness and market share of Hongta red fiber white cardboard and Hongta primary fiber white cardboard, Zhuhai Hongta has lowered the average selling price of both products in FY2020; and (ii) the decrease in our direct labour costs as discussed above.

The gross profit margin of frame paper increased from approximately 18.8% for FY2019 to approximately 28.7% for FY2020. Such increase was mainly because we were able to earn a higher gross profit margin for one of our frame paper products sold to a new customer (the "**Heilongjiang Customer**") based in Harbin, Heilongjiang Province, in FY2020 which required different technical specifications compared to our other products. Our Group generally applied a type of white cardboard (the "**Commonly used White Cardboards**") procured from Supplier B for the production of frame paper supplied to the Heilongjiang Customer. In FY2020, our Group had on occasions and depending on the availability, applied an alternative white cardboard (the "**Alternative White Cardboards**") with lowered pricing procured from another white cardboard supplier (the "**Alternative Supplier**") for the production of frame paper supplied to the Heilongjiang Customer.

The Alternative White Cardboards procured by our Group could be viewed as a form of by-product created when the Alternative Supplier performs cutting for some of its white cardboard products placed by its other customers. The Alterative Supplier generally has to cut a large piece of white cardboard into smaller pieces according to its customers' specifications. After cutting, there are generally certain remnants of white cardboard in smaller dimension remaining (the "**by-products**"). The by-products cannot be widely applied in the production of cigarette packaging paper products because the smaller-size of these by-products has largely restricted its prospect in fulfilling the product specifications of different customers, resulting in its relatively narrow application in cigarette packaging paper production and lower demand from customers. Therefore, the Alternative Supplier is willing to sell the by-products at a relatively lower price.

In FY2020, our Group had on occasions purchased the Alternative White Cardboards (subject to its availability as further discussed below) from the Alternative Supplier as a substitute of the Commonly used White Cardboards. We had examined the Alternative White Cardboard and considered that its specifications, including size and cutting, were suitable to be used for the production and were compatible with the product specifications of frame paper products supplied to the Heilongjiang Customer. For FY2019, FY2020 and FY2021, our purchases of Alternative White Cardboards from the Alternative Supplier for the production of frame paper supplied to the Heilongjiang Customer amounted to nil, approximately RMB0.3 million and nil, respectively, while our purchases of other white cardboards used for production of other products from the Alternative Supplier amounted to approximately RMB1.5 million, RMB4.4 million and RMB10.7 million, respectively. The average selling price of the Alternative White Cardboards per tonne was in general approximately 24.2% lower than the Commonly used White Cardboards. The use of the lower price white cardboard, namely the Alternative White Cardboards, in FY2020 has lowered our production costs of frame paper supplied to the Heilongjiang Customer, thereby resulting in the higher gross profit margin attributable to such frame paper product. The gross profit and gross profit margin attributable to the Heilongjiang Customer was approximately RMB0.4 million and 31.1% for FY2020, respectively. Such customer was deregistered on 15 October 2021 as required by relevant government body, according to publicly available information. As at the Latest Practicable Date, our Group did not have any unsettled amount owing from such customer.

Our Directors confirmed to the best of their knowledge that there were no other past or present relationship between each of Zhuhai Hongta, Supplier B, Wuhan Jinfengda, Shenzhen Bolida, the Heilongjiang Customer (or their shareholders/ultimate beneficial owners or directors) and our Company, subsidiaries, Shareholders, Directors, senior management, or any of their respective associates.

Selling expenses

Our selling expenses decreased from approximately RMB8.1 million for FY2019 to approximately RMB7.2 million for FY2020, representing a decrease of approximately RMB0.9 million or 11.1%. Such decrease in our selling expenses was mainly attributable to (i) the decrease in our freight charges by approximately RMB0.5 million which was mainly due to the increase in proportion of our sales to customers located in Hubei Province and Henan Province during FY2020 which are located within a shorter distance from our production facility as compared to customers located in other locations in North-east China and East China, resulting in lower freight charges, which was charged based on distance, being incurred by us; and (ii) the decrease in our salaries and benefits by approximately RMB0.3 million mainly due to the decrease in remuneration to our marketing staff as less marketing activities were carried out by them during the outbreak of COVID-19 as well as the partial exemption of social insurance in accordance with the government policy in FY2020.

Administrative expenses

Our administrative expenses decreased from approximately RMB17.0 million for FY2019 to approximately RMB15.7 million for FY2020 which was mainly attributable to the decrease in our staff costs, including directors' emolument, by approximately RMB0.7 million, due to the decrease in number of employees in the administration and finance departments during FY2020 as well as the partial exemption of social insurance in accordance with the government policy in FY2020.

Net impairment (losses)/reversal of impairment on financial assets

We recorded a net impairment losses on financial assets of approximately RMB2.0 million and RMB1.8 million for FY2019 and FY2020, respectively. For details, please refer to the paragraph headed "Principal components of results of operations — Net impairment (losses)/ reversal of impairment on financial assets" in this section.

Other income

Our other income increased from approximately RMB1.5 million for FY2019 to approximately RMB3.3 million for FY2020, mainly attributable to the increase in income generated from the sales of raw and waste materials, net from approximately RMB1.2 million for FY2019 to approximately RMB3.1 million for FY2020, which mainly depends on the ad-hoc orders placed by customers.

Other gains — net

Our other gains increased from approximately RMB44,000 for FY2019 to approximately RMB0.5 million for FY2020 mainly attributable to the increase in dividend income from financial assets at FVPL from approximately RMB22,000 for FY2019 to approximately RMB0.4 million for FY2020 derived from our Group's non-capital protected wealth management products during FY2020.

Finance (costs)/income — net

We recorded a net finance costs of approximately RMB1.1 million for FY2019 and approximately RMB0.9 million for FY2020 mainly attributable to the interest expenses on bank borrowings.

Income tax expense

Despite slight increase in our revenue and gross profit, our profit before income tax increased from approximately RMB39.0 million for FY2019 to approximately RMB48.4 million for FY2020 mainly due to the decrease in our administrative expenses, selling expenses and net impairment losses of impairment on financial assets, as well as the increase in our other income as discussed above.

Our income tax expense increased from approximately RMB4.7 million for FY2019 to approximately RMB6.2 million for FY2020 due to the increase in our profit before income tax while our effective tax rates remained relatively stable at approximately 12.1% for FY2019 and approximately 12.8% for FY2020.

FY2020 compared with FY2021

Revenue

Our overall revenue increased from approximately RMB318.3 million for FY2020 to approximately RMB370.3 million for FY2021, representing an increase of approximately RMB52.0 million or 16.3%. Such increase was mainly due to (i) the increase in demand from some of our major customers, in particular, the revenue derived from Harbin Shixiang increased from approximately RMB15.3 million for FY2020 to approximately RMB42.8 million for FY2021 which was mainly driven by the increase in sales of three other types of cigarette packaging paper products in FY2021 for the use in the manufacture of cigarette packages under Brand A and Brand G, both are "Dual 15 cigarette brands", to Harbin Shixiang and the revenue derived from Customer E increased from approximately RMB32.1 million for FY2020 to approximately RMB55.6 million for FY2021 which was mainly attributable to the increase in sales of cigarette packaging paper for the use in the manufacture of cigarette packages under Brand A, a "Dual 15 cigarette brand", to Customer E; (ii) the increase in average selling price of our products upon renewal of certain framework sales agreements with our customers during FY2021. When determining the average selling price of our products prior to the renewal of such framework sales agreements, we had taken into consideration the general increase in price of white cardboards used for our production and increased the average selling price of our products accordingly. As a result, our Group was able to shift part of the increase in price of white cardboards to our customers; and (iii) our Group was adversely affected by the outbreak of COVID-19 in early 2020. In particular, the PRC Government imposed a lockdown in Huanggang, Hubei Province from 23 January 2020 to 25 March 2020, during which we completely suspended all our sales and production activities. We resumed business operation since late-March 2020, and we were able to complete product delivery in respect of certain purchase orders received prior to the lockdown period by April 2020. For details, please refer to the paragraph headed "Business — Impact of the outbreak of COVID-19 on our operations" in this prospectus. Our Group was under full operation and did not experience any business suspension or disruption due to the outbreak of COVID-19 in FY2021.

Cost of sales

Our cost of sales increased from approximately RMB248.2 million for FY2020 to approximately RMB288.5 million for FY2021, representing an increase of approximately RMB40.3 million or 16.2%. The increase in cost of sales was generally in line with the increase in our revenue of approximately 16.3% for FY2021. Our business was operated in full scale throughout FY2021 while we experienced temporary suspension of our business during the lockdown period in FY2020. Our costs of raw materials increased from approximately RMB237.3 million for FY2020 to approximately RMB276.5 million for FY2021, representing an increase of approximately 16.6%. Such increase was mainly due to (i) the increase in sales volume by approximately 11.4% in FY2021 as discussed above; and (ii) the increase in price of white cardboard used for our Group's production in FY2021, which contributed an increase of cost of raw materials by approximately 5%. According to the Industry Report, the price of white cardboard for cigarette packaging use increased from approximately RMB6,259 per tonne for 2020 to approximately RMB7,224 per tonne for 2021, representing an increase of approximately 15.4%. The increase in price of white cardboard for cigarette packaging use in FY2021 was not fully reflected in our cost of raw materials and goods used for FY2021 which was mainly attributable to: (i) based on our past experience, the cost of white cardboard generally accounted for approximately 50% to 70% of the total cost of our transfer paper and laminated paper products; (ii) the sales of finished goods carried from the inventory of FY2020; and (iii) our production in the first half of FY2021 had used our inventory of white cardboard carried forward from FY2020 as well as from the white cardboard procured before the price increase since April 2021. Therefore, the increase in price of white cardboard mainly affected our production in the second half of FY2021.

The relatively higher utilities costs in FY2021 was mainly due to (i) the increase in our actual production volume by approximately 17.5% from FY2020 to FY2021; (ii) the 5% discount on electricity costs announced by the local government in FY2020 was not available in FY2021; and (iii) our Group purchased additional machinery and electronic and other equipment to enhance our Group's production process in 2021, which resulted in additional electricity costs of approximately RMB0.6 million incurred based on our estimation. Despite the increase in production volume in FY2021, our direct labour costs remained relatively stable at approximately RMB4.1 million and RMB4.2 million for FY2020 and FY2021, respectively. The less-than-proportionate increase in our direct labour costs was mainly due to the implementation of human resources cost control measures during the year which resulted in the reduction of headcount in some of our operation departments.

Gross profit and gross profit margin

Our Group's gross profit increased from approximately RMB70.1 million for FY2020 to approximately RMB81.8 million for FY2021, representing an increase of approximately RMB11.7 million or 16.7%. Such increase was mainly due to the increase in revenue as discussed above. Our gross profit margin remained relatively stable at approximately 22.0% and 22.1% for FY2020 and FY2021, respectively, given that the increase in our cost of sales was generally in line with the increase in our overall revenue for the corresponding financial year.

Transfer paper

Our gross profit margin of transfer paper increased from approximately 21.6% for FY2020 to approximately 23.8% for FY2021. The increase in gross profit margin of transfer paper was mainly attributable to the increase in sales of transfer paper products with higher gross profit margin during FY2021 while such products were mainly used for mid-to-high-end cigarettes packaging paper.

Laminated paper

Our gross profit margin of laminated paper decreased from approximately 19.7% for FY2020 to approximately 12.4% for FY2021. The relatively lower gross profit margin of laminated paper for FY2021 was mainly due to our pricing strategy in respect of certain laminated paper ordered by one of our major customers. Our management had factored in a lower gross profit margin when determining the fee quotation for such laminated paper after considering the increase in sales of transfer paper with higher gross profit margin to such customer during the year. Our sales of transfer paper to such customer accounted for approximately 70.6% of our revenue derived from such customer for FY2021; whereas our sale of laminated paper to such customer accounted for only approximately 29.4% of our revenue derived from such customer during the corresponding year. Our Directors consider that such pricing strategy is conducive to our efforts in strengthening our business relationship with such customer by being its supplier of different kinds of cigarette packaging paper.

Frame paper

Our gross profit margin of frame paper decreased from approximately 28.7% for FY2020 to approximately 11.9% for FY2021. The higher gross profit margin of frame paper for FY2020 was mainly due to certain purchase orders of frame paper placed by the Heilongjiang Customer in FY2020. The selling price of frame paper to the Heilongjiang customer was generally in line with similar products sold to other customers. However, our Group was able to reduce our production costs by using certain type of white cardboard which is mainly applied in the production of such product and generally less costly as compared to other types of white cardboard that could be applied in the production of a wider range of cigarette packaging materials.

The decrease in our gross profit margin of frame paper for FY2021 as compared to FY2020 was mainly due to the unavailability of the less costly white cardboard (i.e. the Alternative White Cardboards) at the time when the Heilongjiang Customer placed purchase orders of frame paper with us during FY2021. The availability of the Alternative White Cardboards is largely subject to the customer of the Alternative Supplier placing purchase orders for the specific types of products which would create the by-products, given that the Alternative White Cardboards are essentially by-products created during the cutting process of the Alternative Supplier as explained above. In the event that the Alternative White Cardboards were not readily available by the time the Heilongjiang Customer placed purchase orders for frame paper products with us, we would have to resort to the use of the Commonly used White Cardboards with higher average selling price to fulfil the purchase orders of the Heilongjiang Customer.

In order to ensure timely delivery of products, our Group used another type of white cardboard at a higher cost for the production of the frame paper products ordered by the Heilongjiang Customer in FY2021 resulting in a relatively lower gross profit margin of frame paper for FY2021 as compared to FY2020. The gross profit attributable to the Heilongjiang Customer decreased from approximately RMB0.4 million for FY2020 to approximately RMB23,000 for FY2021, and the gross profit margin attributable to such customer decreased from approximately 31.1% for FY2020 to approximately 9.6% for FY2021. The Heilongjiang Customer was deregistered on 15 October 2021 as required by relevant government body, according to publicly available information. As at the Latest Practicable Date, our Group did not have any unsettled amount owing from such customer.

Selling expenses

Our selling expenses increased from approximately RMB7.2 million for FY2020 to approximately RMB10.1 million for FY2021, representing an increase of approximately RMB2.9 million or 40.3%. The lower selling expenses for FY2020 was mainly due to (i) the negative impact of COVID-19 on the economic activities in the PRC during the first three months of FY2020, resulting in (i) the lower remuneration to our marketing staff for FY2020 due to the lower revenue for FY2020 as well as the partial exemption of social insurance in accordance with the government policy during February to December 2020; and (ii) lower sales volume recorded in FY2020 as well as higher proportion of sales to customers located in Hubei Province and Henan Province during FY2020 which are located within shorten distance from our production facility as compared to customers located in other locations in North-east China and East China, which led to lower freight charges incurred.

Administrative expenses

Our Group's administrative expenses increased from approximately RMB15.7 million for FY2020 to approximately RMB32.4 million for FY2021 mainly due to (i) the listing expenses of approximately RMB12.7 million incurred during FY2021; (ii) the increase in research and development expenses from approximately RMB10.4 million for FY2020 to approximately RMB13.1 million for FY2021; and (iii) the increase in our staff costs, including directors' emolument by approximately RMB0.8 million.

Net impairment (losses)/reversal of impairment on financial assets

We recorded a net impairment losses on financial assets of approximately RMB1.8 million for FY2020 and a net reversal of impairment on financial assets of approximately RMB0.5 million for FY2021. For details, please refer to the paragraph headed "Principal components of results of operations — Net impairment (losses)/reversal of impairment on financial assets" in this section.

Other income

Our other income decreased from approximately RMB3.3 million for FY2020 to approximately RMB2.0 million for FY2021 which was mainly attributable to the net effect of (i) the decrease in sales of raw and waste materials, net, from approximately RMB3.1 million for FY2020 to approximately RMB1.6 million for FY2021, which mainly depends on the ad-hoc purchase orders placed by customers; and (ii) the increase in government grants related to income from approximately RMB0.1 million for FY2020 to approximately RMB0.2 million for FY2021.

Other gains — net

Our Group's net other gains decreased from approximately RMB0.5 million for FY2020 to approximately RMB0.1 million for FY2021 which was mainly attributable to the net effect of (i) the increase in bank charges on bills receivable discounted to banks from nil for FY2020 to approximately RMB0.3 million for FY2021; and (ii) the decrease in dividend income from financial assets at FVPL from approximately RMB0.4 million for FY2020 to approximately RMB0.3 million for FY2021.

Finance (costs)/income — net

We recorded a net finance costs of approximately RMB0.9 million for FY2020 and a net finance income of approximately RMB0.2 million for FY2021, which was mainly attributable to (i) the increase in interest income on bank deposits and restricted cash by approximately RMB0.8 million and (ii) the decrease in interest expenses on bank borrowings by approximately RMB0.3 million as a result of decrease in our bank borrowings.

Income tax expense

Our profit before income tax decreased from approximately RMB48.4 million for FY2020 to approximately RMB42.1 million for FY2021 mainly due to the net effect of (i) increase in our revenue and gross profit as discussed above and (ii) the increase in our administrative expenses as discussed above.

Our income tax expense increased from approximately RMB6.2 million for FY2020 to approximately RMB6.4 million for FY2021 and our effective tax rate increased from approximately 12.8% for FY2020 to approximately 15.2% for FY2021, which was mainly due to the non-deductible listing expenses incurred during FY2021.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary use of cash is to fund our working capital requirements, purchase of property, plant and equipment and to repay bank borrowings and related interest expenses. During the Track Record Period, there have been no material changes in our underlying drivers of the sources and uses of cash.

We have funded our business primarily using proceeds from cash generated from our operating activities and bank borrowings. Our sources of liquidity will be satisfied using a combination of cash generated from operating activities, bank loans and the net proceeds from the Share Offer and other funds raised from the capital markets from time to time upon Listing. We will closely monitor the level of our working capital, particularly for our future plans which may utilise significant amount of working capital.

Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed ''Future plans and use of proceeds'' in this prospectus.

Cash flows

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

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from operating activities	24,415	70,770	28,628
Net cash (used in)/generated from investing activities	(1,259)	(107)	37
Net cash (used in) financing activities	(20,178)	(59,639)	(7,687)
Net increase in cash and cash equivalents	2,978	11,024	20,978
Cash and cash equivalents at beginning of year	23,557	26,535	37,559
Exchange differences on cash and cash equivalents	—	—	41
Cash and cash equivalents at end of year	26,535	37,559	58,578

Cash flows from operating activities

We derived our cash flow from operating activities primarily through the receipt of payments from sales of cigarette packaging paper. Our cash outflow for operating activities was primarily attributable to payment for purchase of raw materials and other expenses for our operating activities. A statement of cash flow in relation to our operating activities is set out below.

	FY2019	FY2020	FY2021
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	39,037	48,365	42,068
Adjustments for:			
— Depreciation of property, plant and equipment	3,124	3,197	3,229
— Depreciation of right-of-use assets	144	140	108
— Amortisation of the intangible assets	130	130	125
— Amortisation of deferred income	(22)	(42)	(42)
— Net impairment losses/(reversal of impairment) on financial assets	2,041	1,755	(474)
— Interest income	(214)	(236)	(1,070)
— Interest expenses on bank borrowings	1,359	1,170	825
— Interest expenses on lease liabilities	2	1	—
— Dividend income from financial asset at FVPL	(22)	(448)	(308)
— Gain on disposal of property, plant and equipment	(12)	—	(4)
— Net exchange gains	—	—	(54)
Changes in working capital:			
— Inventories	2,764	3,263	(12,661)
— Trade receivables	(27,028)	4,425	(2,257)
— Bills receivable	(28,600)	23,300	9,300
— Prepayments and other receivables	774	532	(1,130)
— Restricted cash	9,532	(59,542)	62,190
— Trade and other payables	25,702	50,524	(71,776)
— Amount due from a related party	187	—	—
— Amount due to related parties	—	—	5,496
Cash generated from operations	28,898	76,534	33,565
— Interest received	214	236	1,070
— Income tax paid	(4,697)	(6,000)	(6,007)
Net cash generated from operating activities	24,415	70,770	28,628

For FY2019, we recorded profit before income tax of approximately RMB39.0 million and cash generated from operating activities of approximately RMB24.4 million, which was resulted from the negative adjustment due to (i) the increase in our bills receivable by approximately RMB28.6 million mainly because our Group received certain amount of bills from our customers in late-December 2019, leading to the relatively larger amount of bills receivables balance of our Group of approximately RMB32.6 million as at 31 December 2019 as compared to approximately RMB4.0 million as at 31 December 2018; (ii) the increase in our trade receivables by approximately RMB27.0 million which in line with our revenue growth in FY2019; and partially offset by positive adjustment due to (iii) the increase in our trade and other payables by approximately RMB25.7 million as a result of greater amount of purchases made to support our business growth; and (iv) the decrease in our restricted cash by approximately RMB9.5 million mainly due to the decrease in bills payable.

For FY2020, we recorded profit before income tax of approximately RMB48.4 million and cash generated from operating activities of approximately RMB70.8 million, which was resulted from the positive adjustment due to (i) the increase in our trade and other payables by approximately RMB50.5 million due to the increase in purchase of raw materials from our suppliers following the resumption of economic activities in the PRC; (ii) the decrease in our bills receivable by approximately RMB23.3 million, and such decrease in our bills receivables was mainly due to the relatively larger amount of bills receivables balance as at 31 December 2019 as discussed above.

For FY2021, we recorded profit before income tax of approximately RMB42.1 million and cash generated from operating activities of approximately RMB33.6 million, which was mainly resulted from (i) the positive adjustment due to the decrease in restricted cash by approximately RMB62.2 million mainly attributable to the decrease in bills payable; (ii) the negative adjustment due to the increase in inventories by RMB12.7 million mainly due to greater amount of raw materials purchased to support our increased sales; and (iii) the negative adjustment due to the decrease in trade and other payables by approximately RMB71.8 million mainly attributable to the reasons as discussed under the paragraph headed "Discussion on selected financial positions — Trade and other payables" in this section below.

Cash flows from investing activities

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Assets-related government grants received	1,005	—	—
Proceeds from disposal of property, plant and equipment	283	—	1,004
Purchase of property, plant and equipment	(2,569)	(555)	(1,275)
Purchase of financial assets at FVPL	(8,000)	(169,100)	(215,000)
Proceeds from disposal of financial assets at FVPL	8,000	169,100	215,000
Dividend income from financial assets at FVPL	22	448	308
Net cash (used in)/generated from investing activities	(1,259)	(107)	37

During the Track Record Period, our cash outflows from investing activities primarily includes purchase of financial assets at FVPL, purchase of property, plant and equipment whereas our cash inflows from investing activities primarily includes proceeds from disposal of financial assets at FVPL, dividend income from financial assets at FVPL, assets-related government grants received and proceeds from disposal of property, plant and equipment.

For FY2019, we recorded net cash used in investing activities of approximately RMB1.3 million, which was primarily attributable to the purchase of financial assets at FVPL of approximately RMB8.0 million and the purchase of property, plant and equipment & land use right of approximately RMB2.6 million, while partially offset by the proceeds from disposal of financial assets at FVPL of approximately RMB8.0 million and the assets-related government grants received of approximately RMB1.0 million.

For FY2020, we recorded net cash used in investing activities of approximately RMB0.1 million, which was primarily attributable to the purchase of financial assets at FVPL of approximately RMB169.1 million and the purchase of property, plant and equipment of approximately RMB0.6 million, while partially offset by the proceeds from disposal of financial assets at FVPL of approximately RMB169.1 million and the dividend income from financial assets at FVPL of approximately RMB0.4 million.

For FY2021, we recorded net cash generated from investing activities of approximately RMB37,000, which was primarily attributable to the proceeds from disposal of financial assets at FVPL of approximately RMB215.0 million, proceeds from disposal of property, plant and equipment of approximately RMB1.0 million and dividend income from financial assets at FVPL of approximately RMB0.3 million, while partially offset by the purchase of financial assets at FVPL of approximately RMB215.0 million and purchase of property, plant and equipment of approximately RMB1.3 million.

Cash flows from financing activities

	FY2019	**FY2020**	**FY2021**
	RMB'000	*RMB'000*	*RMB'000*
Loan received from shareholders*(Note)*	—	—	82,261
Deemed distribution to the shareholders of the Company	—	—	(74,693)
Proceeds from bank borrowings	31,500	21,500	15,000
Repayments of bank borrowings	(16,500)	(24,500)	(26,500)
Interest paid on bank borrowings	(1,330)	(1,183)	(840)
Dividends paid	(33,771)	(55,341)	—
Payment of lease liabilities	(75)	(114)	(4)
Interest paid on lease liabilities	(2)	(1)	—
Payment of listing expenses	—	—	(2,911)
Net cash used in financing activities	(20,178)	(59,639)	(7,687)

Note: The loan received from shareholders represented loans received by our Group from each of City Ease, Yong Ning, Enlighten East and Mr. Hu in the amount of approximately RMB43.5 million, RMB12.3 million, RMB19.6 million and RMB6.8 million, respectively. The purpose of the loan received from City Ease, Yong Ning and Enlighten East was for facilitating the implementation of the Reorganisation. Pursuant to the resolution passed by the board of directors of our Company on 31 July 2021, approximately RMB43.5 million, RMB12.3 million and RMB18.9 million due to each of City Ease, Yong Ning and Enlighten East, respectively, was capitalised by increasing the reserve of our Company by the same amount (without allotting and issuing new shares). The remaining balance of approximately RMB0.8 million due to Enlighten East will be settled on or before the Listing. For further details, please refer to note 31(b) of the Accountant's Report to this prospectus.

Pursuant to a loan agreement entered into between Mr. Hu and our Group on 1 August 2021, Mr. Hu granted a loan of approximately RMB6.8 million to our Group which was unsecured, interest free and repayable on demand. Such loan represented the cash advanced by Mr. Hu to our Group for working capital purpose.

During the Track Record Period, our cash outflows from financing activities primarily includes dividends paid, repayments of bank borrowings, interest paid on bank borrowings, payment of lease liabilities and interest paid on lease liabilities, whereas our cash inflows from financing activities primarily includes loan received from shareholders and proceeds from bank borrowings.

For FY2019, we recorded net cash used in financing activities of approximately RMB20.2 million, which was mainly attributable to the dividend paid of approximately RMB33.8 million and the repayments of bank borrowings of approximately RMB16.5 million, and partially offset by cash inflows from the proceeds from bank borrowings of approximately RMB31.5 million.

For FY2020, we recorded net cash used in financing activities of approximately RMB59.6 million, which was mainly attributable to the dividend paid of approximately RMB55.3 million and the repayments of bank borrowings of approximately RMB24.5 million, and partially offset by cash inflows from the proceeds from bank borrowings of approximately RMB21.5 million.

For FY2021, we recorded net cash used in financing activities of approximately RMB7.7 million, which was attributable to (i) the deemed distribution to the shareholders of the Company of approximately RMB74.7 million; (ii) the repayments of bank borrowings of approximately RMB26.5 million; partially offset by (iii) the loan from shareholders of approximately RMB82.3 million; and (iv) the proceeds from bank borrowings of approximately RMB15.0 million.

WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our internal resources, cash generated from our operations, credit facilities as well as our existing cash and cash equivalents and the estimated net proceeds of approximately HK$94.1 million to be received by us from the Share Offer, assuming the Over-allotment Option is not exercised based on the Offer Price of HK$0.65 per Offer Share, being the mid-point of the indicative Offer Price Range of HK$0.63 to HK$0.67 per Offer Share, after deducting the related expenses in relation to the Share Offer, our Group has sufficient working capital for our present requirements for at least 12 months from the date of this prospectus.

NET CURRENT ASSETS

The following table sets forth a breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets				
Inventories	40,701	37,438	50,099	47,806
Trade receivables	148,525	142,418	145,076	158,341
Bills receivable	32,600	9,228	—	—
Prepayments and other receivables	1,147	614	5,106	6,476
Amount due from a related party	1,550	—	—	—
Financial assets at fair value through profit or loss	—	—	—	48,604
Restricted cash	8,908	68,450	6,260	16,740
Cash and cash equivalents	26,535	37,559	58,578	13,476
Total current assets	259,966	295,707	265,119	291,443
Current liabilities				
Trade and other payables	149,416	199,632	128,258	158,966
Bank borrowings	24,545	21,532	10,017	10,011
Dividends payable	17,401	—	37,872	17,872
Lease liabilities	42	—	43	29
Amount due to related parties	—	—	13,051	13,284
Current income tax liabilities	1,071	1,514	1,820	2,882
Total current liabilities	192,475	222,678	191,061	203,044
Net current assets	67,491	73,029	74,058	88,399

Our net current assets increased from approximately RMB67.5 million as at 31 December 2019 to approximately RMB73.0 million as at 31 December 2020. Such increase was mainly due to the combined effects of (i) the increase in our restricted cash by approximately RMB59.5 million as a result of increase in issuance of bills payable in respect of future settlement to suppliers; (ii) the increase in our cash and cash equivalents by approximately RMB11.0 million; and partially offset by (iii) the increase in our trade and other payables by approximately RMB50.2 million mainly attributable to the increase in bills payable from approximately RMB12.3 million as at 31 December 2019 to approximately RMB75.8 million as at 31 December 2020 for the purchase of raw materials from our suppliers which was in line with the increase in restricted cash.

Subsequently, our net current assets slightly increased from approximately RMB73.0 million as at 31 December 2020 to approximately RMB74.1 million as at 31 December 2021. Such increase was mainly due to the combined effects of (i) the decrease in trade and other payables of approximately RMB71.4 million due to the decrease in bills payable as a result of decrease in issuance of bills payable in FY2021 as compared to FY2020; (ii) the decrease in bank borrowings by approximately RMB11.5 million as we repaid bank borrowings during the year; (iii) increase in our cash and cash equivalents by approximately RMB21.0 million; partially offset by (iv) the increase in dividends payable by approximately RMB37.9 million as at 31 December 2021 (31 December 2020: nil) and (v) the decrease in our restricted cash by approximately RMB62.2 million which was in line with the decrease in bills payable.

As at 30 April 2022, being the latest practicable date for ascertaining our net current assets position, our net current assets amounted to approximately RMB88.4 million, which was greater than our net current assets as at 31 December 2021 mainly due to the combined effect of (i) the increase in financial assets at fair value through profit or loss by approximately RMB48.6 million while the decrease in cash and cash equivalents by approximately RMB45.1 million mainly due to the purchase of financial assets; (ii) the decrease in dividends payable by RMB20.0 million as a result of settlement of dividends payable; (iii) the increase in trade receivables by approximately RMB13.3 million; (iv) the increase in our restricted cash by approximately RMB10.5 million; partially offset by (v) the increase in our trade and other payables by approximately RMB30.7 million as a result of the increase in issuance of bills payables and increase in trade payables.

DISCUSSION ON SELECTED FINANCIAL POSITION ITEMS

Inventories

The following table sets forth the breakdown of our inventories as at the dates indicated:

	As at 31 December 2019	**As at 31 December 2020**	**As at 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	10,778	14,202	13,506
Finished goods	29,840	23,038	36,315
Packaging materials and others	83	198	278
	40,701	37,438	50,099

Our inventories mainly includes raw materials, finished goods and packaging materials and others. Our raw materials mainly include white cardboard, film and other accessory materials such as glue and ink.

Our Group has implemented inventory management policies to monitor and control our inventory level so as to facilitate our production in a timely manner and control our inventory at an optimal level to avoid obsolescence. Throughout the year, our Group reviews the stock-take records and performs inventory ageing analysis to ensure that inventory is properly used and there is no unnecessary accumulation of aged inventory. For details, please refer to the section headed "Business — Inventory control" in this prospectus.

The following table sets forth the turnover days of our inventories for the periods indicated:

	FY2019	**FY2020**	**FY2021**
Inventory turnover days*(Note)*	62.2 days	57.4 days	55.4 days

Note: Inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year, divided by the cost of sales of the relevant year, multiplied by the number of days in the relevant year (i.e. 365 days for full year).

Our inventory turnover days decreased from approximately 62.2 days for FY2019 to approximately 57.4 days for FY2020. Subsequently, our inventory turnover days decreased further to approximately 55.4 days for FY2021 primarily attributable to improvement in managing our inventory level.

As at the Latest Practicable Date, approximately RMB42.1 million or 84.0% of our inventories as at 31 December 2021 had been used or sold.

Trade receivables

The following table sets forth a breakdown of our trade receivables as at the respective dates indicated:

	As at 31 December 2019	**As at 31 December 2020**	**As at 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	152,165	147,740	149,997
Less: allowance for impairment	(3,640)	(5,322)	(4,921)
Trade receivables — net	148,525	142,418	145,076

Our customers generally settle the trade receivables by bank acceptance bills or bank transfer. We generally granted a credit period of 60 to 180 days to our customers from the date of billing during the Track Record Period.

The following is an ageing analysis of trade receivables presented based on invoice date as at the respective dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Within 30 days	48,390	44,111	66,606
31 to 90 days	44,455	68,682	57,017
91 to 180 days	39,544	32,004	22,915
181 days to 1 year	17,736	1,905	2,823
Over 1 year	2,040	1,038	636
	152,165	147,740	149,997

Our trade receivables decreased from approximately RMB152.2 million as at 31 December 2019 to approximately RMB147.7 million as at 31 December 2020. This was mainly due to the decreased level of trade receivables that were aged 181 days to one year from certain customers, which in aggregate amounted to approximately RMB10.0 million as at 31 December 2019 and such amount was settled during FY2020. Subsequently, our trade receivables slightly increased from approximately RMB147.7 million as at 31 December 2020 to approximately RMB150.0 million as at 31 December 2021 which was mainly due to the increased level of trade receivables aged within 30 days, from approximately RMB44.1 million as at 31 December 2020 to approximately RMB66.6 million as at 31 December 2021 partially offset by the decrease in trade receivables aged 31 to 90 days by approximately RMB11.7 million.

We determine the provision for impairment over our trade receivables and bills receivables based on expected credit losses (the "**ECL**"), calculated by using the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. We have engaged an independent valuer based in Hong Kong, ValQuest Advisory (Hong Kong) Limited (the "**Valuer**"), to evaluate and determine the provision for impairment over trade receivables and bills receivables. With the support of the valuation performed by the Valuer, the ECL rate for each year represented the average of the relevant credit loss rates for each group, which was determined based on a number of parameters, including (i) analysis of historical credit loss rates; and (ii) forward-looking adjustment based on the correlation between default rates and macro-economic factors (indicative overall market conditions), such as the Gross Domestic Product and Manufacturing Purchasing Managers Index of the PRC as well as the economic impact of the unprecedented COVID-19 pandemic on the customers' and the regions in which they operate. As at 31 December 2019, 31 December 2020 and 31 December 2021, we had allowance for impairment of RMB3.6 million, RMB5.3 million and RMB4.9 million, respectively. For further details, please refer to notes 2.8 and 3.1.2 of the Accountant's Report to this prospectus.

We have adopted an internal policy to monitor the recoverability of our trade receivables including reviewing the credit terms and credit limits granted to customers, their financial performance and historical payment records, and communicating to them regularly to obtain their latest business condition and financial performance.

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

	FY2019	FY2020	FY2021
Trade receivables turnover days*(Note)*	158.7 days	166.8 days	141.7 days

Note: Trade receivables turnover days is calculated as the average of aggregate balance of the trade receivables for the year, divided by revenue for the relevant year, multiplied by the number of days in the relevant year (i.e. 365 days for full year).

Our trade receivables turnover days for FY2019, FY2020 and FY2021 were approximately 158.7 days, 166.8 days and 141.7 days, respectively, which were relatively stable and within the credit period we granted to our customers.

As at the Latest Practicable Date, approximately RMB125.9 million or 84.0% of the trade receivables outstanding as at 31 December 2021 had been subsequently settled.

Bills receivables

Bills receivables were all bank acceptance bills, and a total amount of approximately RMB50.5 million, RMB48.7 million and RMB133.5 million as at 31 December 2019 and 2020, and 31 December 2021, respectively, that have been endorsed to the suppliers, and a total amount of nil, nil and approximately RMB22.1 million that have been discounted to bank had been derecognised as our Directors considered substantially all risks and rewards of ownership of those bills receivable have been transferred before maturity.

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Bills receivables measured at fair value through other comprehensive income ("**FVOCI**")	32,600	9,228	—

Our bills receivable decreased from approximately RMB32.6 million as at 31 December 2019 to approximately RMB9.2 million as at 31 December 2020, then further decrease to nil as at 31 December 2021. In particular, the significant large amount of bills receivable as at 31 December 2019 was mainly because our Group received certain amount of bills from our customers in late-December 2019, leading to the relatively larger amount of bills receivables of our Group as at 31 December 2019. The decrease in our bills receivable as at 31 December 2021 was mainly because we have endorsed the bills receivables for settlement of outstanding balances to our suppliers.

As at 31 December 2021, we have no outstanding bills receivables.

Prepayments and other receivables

Our current portion of prepayments and other receivables mainly consists of listing expenses to be capitalised upon the Listing, recoverable of value added tax, prepayments for purchase and materials to our suppliers and other receivables such as refundable deposits to our customers as performance guarantee, which amounted to approximately RMB1.1 million, RMB0.6 million and RMB5.1 million as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively. The increase in prepayments and other receivables as at 31 December 2021 was mainly due to (i) the increase in prepayments of professional fees of approximately RMB3.8 million in relation to the Listing during FY2021; and (ii) the increase in other receivables of approximately RMB0.7 million as refundable deposits to our customers as performance guarantee in FY2021.

Amount due from a related party

The following table sets forth a summary of the amounts due from a related party which are non-trade in nature as at the dates indicated:

	As at 31 December 2019	**As at 31 December 2020**	**As at 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Lin	1,550	—	—

Amount due from a related party mainly represented the amount due from Mr. Lin of approximately RMB1.6 million, nil and nil as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively. Such amount mainly represented the disposal of an item of property, plant and equipment owned by our Group to Mr. Lin in 2017 for his personal use. The amount was non-trade in nature, unsecured, interest-free, repayable on demand and denominated in RMB and was set off against the dividends payable to Mr. Lin in FY2020.

Trade and other payables

The following table sets out the breakdown of trade and other payables as at the dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	129,424	112,522	106,627
Bills payable	12,258	75,800	12,520
Employee benefits payable	1,959	1,934	1,942
Other accrued expenses	528	366	2,564
Refund liabilities	84	72	86
Other tax payable excluding income tax liabilities	5,163	8,938	4,519
	149,416	199,632	128,258

Trade payables

Trade payables mainly consist of amounts due to our suppliers for the purchase of raw materials.

The following table sets forth the ageing analysis of the trade payables based on invoice dates:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	RMB'000	*RMB'000*	*RMB'000*
Up to 30 days	38,346	51,911	37,809
31 to 90 days	59,406	44,479	44,311
91 to 180 days	22,173	10,295	16,138
181 days to 1 year	8,815	5,269	6,632
Over 1 year	684	568	1,737
	129,424	112,522	106,627

Our trade payables decreased from approximately RMB129.4 million as at 31 December 2019 to approximately RMB112.5 million as at 31 December 2020 and then further decreased to approximately RMB106.6 million as at 31 December 2021 mainly due to our settlement of outstanding balances to our suppliers near the year end.

The following table sets forth the turnover days of our trade payables for the periods indicated:

	FY2019	FY2020	FY2021
Trade payables turnover days$^{(Note)}$	168.7 days	177.9 days	138.6 days

Note: Trade payables turnover days is calculated as the average of aggregate balance of the trade payables for the year, divided by the cost of sales for the relevant year, multiplied by the number of days in the relevant year (i.e. 365 days for full year).

Our trade payables turnover days increased from approximately 168.7 days for FY2019 to approximately 177.9 days for FY2020. Subsequently, it decreased to approximately 138.6 days for FY2021.

As at the Latest Practicable Date, approximately RMB82.3 million or 77.2% of our trade payables as at 31 December 2021 had been subsequently settled. None of our outstanding trade payables as at 31 December 2021 were in dispute with our suppliers.

Other payables

Our other payables mainly comprised of bills payables and other tax payables excluding income tax liabilities.

Our Group's bills payables increased from approximately RMB12.3 million as at 31 December 2019 to approximately RMB75.8 million as at 31 December 2020 and decreased to approximately RMB12.5 million as at 31 December 2021. The significant increase in amount of bills payables as at 31 December 2020 was mainly due to the increase in issuance of bills payables to suppliers as a result of greater amount of purchases made to support our business growth.

Our Group's other tax payables excluding income tax liabilities amounted to approximately RMB5.2 million, RMB8.9 million and RMB4.5 million as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively, mainly comprised of value-added tax payables in the PRC.

Bank borrowings

Our bank borrowings amounted to approximately RMB24.5 million as at 31 December 2019, RMB21.5 million as at 31 December 2020 and RMB10.0 million as at 31 December 2021. The decrease in bank borrowings as at 31 December 2021 was due to the net effect of (i) the repayment of bank borrowings of approximately RMB26.5 million during FY2021; and (ii) the drawdown of bank borrowings of approximately RMB15.0 million during the year. Please refer to the paragraph headed "Indebtedness — Bank borrowings" in this section for more information.

Current income tax liabilities

Our current income tax liabilities were relatively stable at approximately RMB1.1 million as at 31 December 2019, RMB1.5 million as at 31 December 2020 and RMB1.8 million as at 31 December 2021.

Capital expenditure

During FY2019, FY2020 and FY2021, we incurred capital expenditures of approximately RMB1.7 million, RMB0.3 million and RMB1.3 million, respectively as set out in below:

	FY2019	FY2020	FY2021
	RMB'000	*RMB'000*	*RMB'000*
Machinery	104	25	1,174
Buildings	1,416	136	—
Motor vehicles	74	—	22
Electronic and other equipments	98	144	67
Total	1,692	305	1,263

Our capital expenditures primarily consisted of purchase of machinery, buildings, motor vehicles and electronic and other equipments. Our Directors consider that continued investments in property, plant and equipment are necessary in order to cope with our business development and expand our overall production capacity, production efficiency and product portfolio. As such, we plan to acquire additional machinery and equipment and construct additional properties in the future, further information of which is disclosed in the paragraph headed "Business — Business strategies" and the section headed "Future plans and use of proceeds" in this prospectus. We plan to finance future capital expenditures primarily through the net proceeds of the Listing as well as from cash flows generated from operations.

INDEBTEDNESS

As at 30 April 2022, being the latest practicable date for the purpose of the indebtedness statement, the total balance of our interest-bearing liabilities was RMB10.0 million. Other than 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 acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants or other material contingent liabilities.

The following table sets forth our Group's indebtedness as at the respective dates indicated. Our Directors confirm that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other credit facilities during the Track Record Period. As at the Latest Practicable Date, there are no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing.

In May 2022, we have signed a new credit facility letter with a bank in the PRC that contains bank borrowings and bills payable limit up to RMB30.0 million in aggregate. Our Directors confirm that save as disclosed above, we did not have any other immediate plan for additional material external debt financing and there has not been any material change in our indebtedness or contingent liabilities since 30 April 2022 and up to the date of this prospectus.

The following table sets forth our Group's indebtedness as at the respective dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current liabilities				
Bills payable	12,258	75,800	12,520	26,740
Bank borrowings	24,545	21,532	10,017	10,011
Dividends payable	17,401	—	37,872	17,872
Lease liabilities	42	—	43	29
Amounts due to related parties	—	—	13,051	13,284
	54,246	97,332	73,503	67,936

Bills payable

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bills payable	12,258	75,800	12,520	26,740

As at 31 December 2019, the bills payable was secured by bank deposits, and were guaranteed by Mr. Yu.

As at 31 December 2020, the bills payable was secured by bank deposits and bills receivable pledged to banks, and guaranteed by Mr. Yu and a staff of the Group. The guarantees were subsequently released. As at 31 December 2021 and 30 April 2022, the bills payable was secured by bank deposits, the Group's buildings and land-use right.

Bank borrowings

The following table sets forth our bank borrowings as at the respective dates indicated:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bank borrowings — secured	24,545	21,532	10,017	10,011

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the above bank borrowings were secured by our Group's buildings and land use rights and were to be settled within one year. Our Group's bank borrowings as at 31 December 2019 were guaranteed by Mr. Chen, Mr. Yu and his spouse. Our Group's bank borrowings as at 31 December 2020 were guaranteed by Mr. Chen, Mr. Hu, Mr. Yu and his spouse, the guarantees were subsequently released on or before 18 November 2021.

The weighted average effective interest rates of our Group's bank borrowings as at 31 December 2019, 2020 and 2021 were 6.93%, 6.00% and 5.32% per annum, respectively.

As at 30 April 2022, being the latest practicable date for the liquidity disclosures in this prospectus, we had available credit facilities including bank borrowings of RMB10.0 million which was fully utilised.

Dividends payable

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the Group's dividends payable to related parties was as follows.

	As at 31 December 2019	**As at 31 December 2020**	**As at 31 December 2021**	**As at 30 April 2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Mr. Chen	9,402	—	21,397	8,911
Mr. Yu	2,663	—	6,060	2,524
Mr. Hu	1,831	—	4,166	1,735
Mr. Wu	1,165	—	2,651	1,104
Mr. Lu	1,355	—	2,083	2,083
Mr. Lin	985	—	1,515	1,515
	17,401	—	37,872	17,872

Dividends payable was unsecured, interest-free, repayable on demand and denominated in RMB. The dividends payable as at 31 December 2021 of approximately RMB37.9 million has been settled as at the Latest Practicable Date by our own internal resources.

Lease liabilities

Our Group recorded total lease liabilities of approximately RMB42,000, nil, RMB43,000 and RMB29,000 as at 31 December 2019, 31 December 2020, 31 December 2021 and 30 April 2022, respectively.

Capital commitments

As at 31 December 2019, 31 December 2020, 31 December 2021 and 30 April 2022, we had the following capital commitments:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Property, plant and equipment	167	—	—	—

Our capital commitments which were contracted but not yet incurred mainly represented the expected capital expenditure in respect of acquisition of property, plant and equipment.

Amounts due to related parties

Our Group recorded amounts due to related parties of nil, nil, approximately RMB13.1 million and approximately RMB13.3 million as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. Such amount mainly represented (i) the cash advanced by Mr. Hu of approximately RMB6.8 million to our Group for working capital purpose, which was non-trade in nature; and (ii) the listing expenses of approximately RMB5.5 million paid by Mr. Hu on behalf of our Group, which was trade in nature. Such arrangement was mainly because our Group did not have any member incorporated in Hong Kong and did not maintain any bank accounts in Hong Kong before the incorporation of Hong Kong WEIli in April 2021 and the opening of its bank accounts in Hong Kong in June 2021. On the other hand, Mr. Hu has other business and assets in Hong Kong and maintains personal bank accounts in Hong Kong. As a majority of the professional parties involved in the Listing are parties located in Hong Kong and the fees are denominated in Hong Kong dollars, in order to save time for arranging payments from the PRC and settle the fees in a timely manner, Mr. Hu paid listing expenses of approximately RMB5.5 million on behalf of our Group by bank transfer in Hong Kong dollars during FY2021. Upon the opening of Hong Kong WEIli's bank accounts in Hong Kong, Mr. Hu further advanced Hong Kong dollars equivalent to RMB6.8 million in aggregate during FY2021 to Hong Kong WEIli for working capital purpose in which such advance was mainly used to settle the listing expenses by cheque in Hong Kong dollars to the professional parties involved in the Listing in Hong Kong directly.

The amount due to related parties was unsecured, interest-free, repayable on demand and denominated in HKD and will be settled on or before the Listing.

Contingent liabilities

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, results of operations or financial condition. Accordingly, no provision for the contingent liabilities in respect of litigations is necessary.

OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements or commitments except as otherwise disclosed.

KEY FINANCIAL RATIOS

	FY2019 or as at 31 December 2019	FY2020 or as at 31 December 2020	FY2021 or as at 31 December 2021
Revenue growth	33.7%	1.8%	16.3%
Net profit growth	9.5%	23.0%	(15.4)%
Gross profit margin	21.0%	22.0%	22.1%
Net profit margin	11.0%	13.2%	9.6%
Return on equity	34.1%	40.9%	35.3%
Return on total assets	11.6%	12.9%	12.1%
Current ratio	1.4 times	1.3 times	1.4 times
Quick ratio	1.1 times	1.2 times	1.1 times
Inventory turnover days	62.2 days	57.4 days	55.4 days
Trade receivables turnover days	158.7 days	166.8 days	141.7 days
Trade payables turnover days	168.7 days	177.9 days	138.6 days
Gearing ratio	24.5%	20.9%	10.0%
Net debt to equity ratio	Net cash	Net cash	Net cash
Interest coverage	29.7 times	42.3 times	52.0 times

Revenue growth

Revenue growth is calculated as the difference between revenue of the respective year and revenue of the previous corresponding year, then divided by revenue of the previous corresponding year.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our revenue.

Net profit growth

Net profit growth is calculated as the difference between profit of the respective year and profit of the previous corresponding year, then divided by profit of the previous corresponding year.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our net profit.

Gross profit margin

Gross profit margin is calculated as gross profit divided by total revenue of the respective year.

Please refer to the paragraph headed "Period-to-period comparison of results of operations" in this section for the reasons for the fluctuation in our gross profit margin.

Net profit margin

Net profit margin is calculated as profit and total comprehensive income for the year divided by total revenue of the respective year.

Our net profit margin increased from approximately 11.0% for FY2019 to approximately 13.2% for FY2020. Such increase was mainly due to (i) the increase in gross profit margin from approximately 21.0% for FY2019 to approximately 22.0% for FY2020; and (ii) the increase in our other income as discussed in the paragraph headed "Period-to-period comparison of results of operations — FY2019 compared with FY2020" in this section.

Our net profit margin decreased from approximately 13.2% for FY2020 to approximately 9.6% for FY2021 mainly due to the net effect of the increase in revenue and gross profit, and the increase in administrative expenses as discussed under the paragraph headed "Period-to-period comparison of results of operations — FY2020 compared with FY2021" in this section.

Return on equity

Return on equity is calculated as profit and total comprehensive income for the year divided by the ending total equity as at the respective reporting dates.

Our return on equity increased from approximately 34.1% for FY2019 to approximately 40.9% for FY2020 mainly attributable to our Group's enhanced profitability with the increase in our Group's net profit margin as discussed under the paragraph headed "Period-to-period comparison of results of operations — FY2019 compared with FY2020" in this section.

Our return on equity decreased from approximately 40.9% for FY2020 to approximately 35.3% for FY2021 mainly due to the net effect of the increase in revenue and gross profit, and the increase in administrative expenses as discussed under the paragraph headed "Period-to-period comparison of results of operations — FY2020 compared with FY2021" in this section.

Return on total assets

Return on total assets is calculated as profit and total comprehensive income for the year divided by the ending total assets as at the respective reporting dates.

Our return on total assets had remained relatively stable at approximately 11.6%, 12.9% and 12.1% for FY2019, FY2020 and FY2021, respectively. The Group's return on assets decreased slightly from approximately 12.9% for FY2020 to approximately 12.1% for FY2021, which was mainly due to the net effect of (i) the decrease in net profit margin as discussed above ; and (ii) the decrease in total assets due to the decrease in restricted cash of approximately RMB62.2 million as at 31 December 2021 as a result of the maturity of bills payable issued by the Group.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio remained relatively stable at approximately 1.4 times, 1.3 times and 1.4 times as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates.

Our quick ratio remained relatively stable at approximately 1.1 times, 1.2 times and 1.1 times as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

Inventory turnover days

Inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year, divided by the cost of sales of the relevant year, multiplied by the number of days in the relevant year (i.e. 365 days for full year).

Please refer to the paragraph headed "Net current assets — Inventories" in this section for the reasons of the fluctuations in our inventory turnover days.

Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year, then multiplied by the number of days of the year (i.e. 365 days for full year).

Please refer to the paragraph headed "Net current assets — Trade receivables" in this section for the reasons for the change in our trade receivables turnover days.

Trade payables turnover days

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of sales for the year, then multiplied by the number of days of the year (i.e. 365 days for full year).

Please refer to the paragraph headed "Net current assets — Trade and other payables" in this section for the reasons for the change in our trade payables turnover days.

Gearing ratio

Gearing ratio is calculated as total borrowings (including bank borrowings and finance lease liabilities) divided by the total equity as at the respective reporting dates.

Our gearing ratio decreased from approximately 24.5% as at 31 December 2019 to approximately 20.9% as at 31 December 2020 and further decreased to approximately 10.0% as at 31 December 2021. Such changes in our gearing ratio was mainly due to the fluctuations in our total borrowings, given our equity base has remained relatively stable as at these reporting dates.

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. total borrowings, net of cash and cash equivalents) divided by total equity as at the respective reporting dates.

We recorded a net cash position as at 31 December 2019, 31 December 2020 and 31 December 2021, respectively.

Interest coverage

Interest coverage is calculated as profit before finance costs and income tax divided by finance costs of the respective reporting years/period.

Our interest coverage increased from approximately 29.7 times for FY2019 to approximately 42.3 times for FY2020 and increased further to approximately 52.0 times for FY2021. Such increase was mainly due to the decrease in our bank borrowings during the Track Record Period.

CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital risk management

Our Group is exposed to customer concentration risk, credit risk and liquidity risk in the normal course of business. For further details of our operational and financial risk management, please refer to the paragraph headed "Business — Risk management and internal control systems" and note 3 of the Accountant's Report set out in Appendix I to this prospectus.

We manage our capital to ensure that entities in our Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Our overall strategy remains unchanged during the Track Record Period.

Treasury Policy

We have implemented a series of internal control policies and rules regarding investment to ensure that the purpose of investment is to preserve capital and liquidity, and we would only purchase investment products under limited circumstances. Our finance department is responsible for managing our investment activities, and investment strategies and decisions of our finance department are subject to review and approval of our Board and management team. Prior to making a proposal to invest in investment products, we will assess and ensure that there remains sufficient working capital for our business needs, operating activities, research and development and capital expenditures even after purchasing such investment products. We adopt a prudent approach in selecting investment products. We generally analyse the investment products based on its historical financial performance. Should we notice any adverse changes to the financial performance of the investment products based on available information, our finance department will report to the Board and take appropriate actions in a timely manner. During the Track Record Period, our Group invested in wealth management products administered by banks in the PRC with whom our Group has established stable business relationship and our Group was able to achieve a stable return from such wealth management products. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, such as duration of investment and the expected returns. To control our risk exposure, we will invest in investments products offered by reputable commercial banks or reputable financial institutions. We generally select investment products with flexible redemption options which allows us to redeem the investment products within a short notice, thereby providing us with flexibility in terms of liquidity. After making an investment, we closely monitor its performance and fair value on a regular basis.

Our Group's financial instruments are carried at fair value as at the end of each reporting period during the Track Record Period, by level of the inputs to valuation techniques used to measure fair value. Our investments of wealth management products are included in level 3 of the fair value hierarchy, and we recognised changes in fair values through profit or loss during the Track Record Period.

For details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, please refer to note 3.3 of the Accountant's Report as set out in Appendix I to this prospectus, which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For our unaudited pro forma adjusted net tangible assets, please refer to the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus.

LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately RMB30.5 million (equivalent to approximately HK$35.9 million), comprising (i) underwriting-related expenses, including underwriting commission and other expenses, of approximately RMB5.5 million (equivalent to approximately HK$6.5 million); and (ii) non-underwriting-related expenses of approximately RMB25.0 million (equivalent to approximately HK$29.4 million), including (a) fees paid and payable to legal advisers and reporting accountant of approximately RMB13.4 million (equivalent to approximately HK$15.7 million; and (b) other fees and expenses, including sponsor fees, of approximately RMB11.6 million (equivalent to approximately HK$13.7 million). Out of the amount of approximately RMB30.5 million (equivalent to approximately HK$35.9 million), approximately RMB10.9 million (equivalent to approximately HK$12.8 million) is directly attributable to the issue of the Listing and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately RMB19.6 million (equivalent to approximately HK$23.1 million), which cannot be so deducted, shall be charged to profit or loss, among which, approximately RMB12.7 million (equivalent to approximately HK$15.0 million) has been charged during FY2021, while approximately RMB6.9 million (equivalent to approximately HK$8.1 million) is expected to be incurred during FY2022. The listing expenses are expected to represent approximately 27.6% of the gross proceeds of the Share Offer, assuming an Offer Price of HK$0.65 per Offer Share (being the mid-point of the indicative Offer Price range) and the Over-allotment Option is not exercised. Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for FY2022 will be adversely affected by the estimated expenses in relation to the Listing.

DIVIDEND

For each of FY2019, FY2020 and FY2021, we declared dividends of approximately RMB42.5 million, RMB39.5 million and RMB37.9 million, respectively, to our then shareholders. Out of the dividend of approximately RMB42.5 million we declared in FY2019, approximately RMB15.9 million was declared out of the profit and total comprehensive income for the year ended 31 December 2017 and approximately RMB26.6 million was declared out of the profit and total comprehensive income for FY2018.

The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any predetermined dividend payout ratio.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 21 April 2021. As at 31 December 2019, 31 December 2020 and 31 December 2021, our Company had no reserves available for distribution to our Shareholders.

RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period are summarised in note 31 to the Accountant's Report set out in Appendix I to this prospectus.

RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the expenses in connection with the Listing, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospect since 31 December 2021, and there had been no events since 31 December 2021 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report set out in Appendix I to this prospectus.