You should read the following discussion and analysis on our financial condition and results of operations together with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report set out in Appendix I to this document. Our consolidated financial statements have been prepared in accordance with HKFRS. Potential investors should read the whole of the Accountant's Report set out in Appendix I to this document and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors."

OVERVIEW

We are a two-wheeled vehicle provider in mainland China, focusing on the design, research and development, manufacturing and selling of electric two-wheeled vehicles and promotion of technical development in the industry. We took the path of building durable electric two-wheeled vehicles under our product tagline of "*Luyuan Liquid-cooled Electric Vehicles, A Ten-Year Ride*" *(綠源液冷電動車,一部車騎十年)*, drawing the industry's attention to quality, durability and technological advancement. According to Frost & Sullivan, we were the fifth largest manufacturer of electric two-wheeled vehicles in mainland China in terms of total revenue in 2022, with a market share of 4.2%.

We achieved strong growth during the Track Record Period. Our revenue increased from RMB2,378.3 million in 2020 to RMB4,783.0 million in 2022, representing a CAGR of 41.8%. Our net profit increased from RMB40.3 million in 2020 to RMB118.0 million in 2022, representing a CAGR of 71.2%.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations were mainly affected and are expected to continue to be affected by the following factors:

Consumer Demand and Changing Consumer Base

Consumer demand is and will continue to be one of the main drivers of the electric two-wheeled vehicle market in mainland China, which is increasingly affected by the following non-exhaustive factors in recent years: the PRC government has implemented a series of measures to support or regulate the healthy and rapid development of green mobility with the electric two-wheeled vehicle industry as an indispensable component to reduce carbon dioxide emissions and achieve carbon neutrality; the urban population has increased rapidly nationwide, which drives the urban area to quickly expand while the construction of public transportation infrastructure especially the metro system is slower than the urbanization process. Therefore, people resort to more effective and convenient mobility including the electric two-wheeled vehicles; urbanization process and increasing household income drive the prosperity of urban retailing and online shopping, which generate enormous demand for on-demand last-mile delivery. In this segment, electric two-wheeled vehicles are the most used transportation tools due to its efficiency and flexibility. Consumer demand largely depends on people's lifestyles which are shaped by the pace of urbanization and regulatory support. Stable or increasing source of demand will ultimately affect the results of our operations.

The consumer base is prone to change subject to the change of the age structure in Chinese society. The results of our operations are therefore dependent upon our ability to cater to newly emerging customer groups while retaining the existing ones. Both technical upgrade and appearance refinement are vital in any improvement of our existing products or development of new products.

Our Ability to Effectively Maintain our Technical Edge

Our results of operations partly depend on our ability to maintain our technical edge, keep up with the technological upgrade of the industry and meet the demands of our anticipated growth. With the increasingly fierce competition in the two-wheeled electric vehicle industry, technological innovation has been playing an increasingly important role in the two-wheeled electric vehicle industry, requiring players in the industry to make extensive technology layouts in various areas such as infotainment and intelligence, more efficient battery management systems, lithium-ion battery and more advanced electric motors to realize better performance on driving mileage, safety and power saving, and to establish first-mover advantages. Therefore, our future growth is affected by the breadth and depth of our industry insights, our technology capabilities to further upgrade our products, and our ability to timely adapt to evolving industry trends and preferences of consumers. We have continuously invested in research and development to maintain and promote our technological capabilities. We believe our invests in relevant technologies will solidify our market position and drive our growth in the long run, but will require upfront capital investments and expenditures in the short run, which would affect our operating costs and expenses.

Advertising and Marketing Strategy

We rely on our advertising and marketing efforts to promote our products and to create brand awareness amongst our customers. Our selling and marketing expenses constituted approximately 5.1%, 5.6% and 5.4% of our total revenue for the years ended December 31, 2020, 2021 and 2022, respectively. Our intensive efforts in advertising and marketing included, but not limited to the following:

- we have also been proactively engaging in marketing activities and increasing our promotional efforts to enhance our brand awareness to attract young consumers;

- we sponsored a number of variety shows to more effectively reach the young generation and rejuvenate our brand image;

- we actively run our social media accounts on major social media platforms to interact with customers, addressing their questions while promoting our vehicles; and

- we cooperate with internet celebrities to promote our vehicles through live streaming or posting engaging content on major social media platforms, to achieve broad exposure to online consumers. These internet celebrities typically test ride our vehicles and share their riding experience with their audience and followers.

We also work closely with our distributors to ensure that our brand culture is reflected at the retail level through providing guidance to distributors in brand promotion and efficient retail management. We intend to continue to devote significant resources on promotional efforts and raise our brand profile through multiple advertising channels and platforms. We expect our target consumers will become increasingly brand conscious as the electric vehicles market in mainland China matures.

Pricing Strategy

The pricing of our products is affected by the competitive landscape of the electric two-wheeled vehicle industry in mainland China. We expect the competition we face in the industry in mainland China will further intensify. As a result, our ability to maintain or increase the selling price of our products will largely depend on our ability to compete effectively by reacting rapidly to market trends and differentiating our products through strong brand recognition, product innovation, our distributors' network and our extensive product portfolio. Factors that affect pricing include our advertising and marketing strategies and our ability to differentiate our products from those of our competitors and competitors' pricing and other strategies. Our pricing guide remains relatively stable, which is updated each month. We also hold distributors' meetings each year to guide them about the specific pricing strategy.

Cost of Raw Materials

The raw materials we use in our manufacturing process mainly include batteries, motors, frames and iron spare parts, plastic parts, shock absorbers and tires. Cost of raw materials and consumables used represented 91.8%, 91.5% and 92.0% of our cost of sales for the years ended December 31, 2020, 2021 and 2022, respectively. Our ability to source a steady supply of raw materials at reasonable prices is one of the key factors affecting our operations.

We meet our supply requirements for raw materials by purchasing directly from suppliers at market prices. The majority of our principal raw material suppliers have been supplying raw materials to us for multiple years. We believe that we are able to obtain high quality raw materials at reasonable and competitive prices as a result of our long-term relationships with our suppliers.

Our principal raw materials are subject to price volatility caused by external conditions, such as commodity price fluctuations. The prices we pay are also influenced by factors such as the location of our production facilities, fluctuations in our seasonal production, availability of alternative suppliers and substitute materials and the number of products we manufacture at a particular time.

Seasonality

Our financial performance and results of operations are subject to seasonal fluctuations. We typically experienced higher sales in March of each year, primarily in connection with distributors' restocking demands after the Spring Festival holiday. Sales are also relatively higher in July, August and September of each year which are months that straddle summer holidays and school opening seasons when students and parents typically have strong transportation mobility needs. Sales of our products can also fluctuate throughout the year for other reasons, including the timing of new product launches and the timing of promotional campaigns.

IMPACT OF THE COVID-19 PANDEMIC

Since December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. In response to the COVID-19 outbreak, we took a series of measures in order to ensure the health of our employees and the hygiene of the working environment, including, among others, arranging alternative working-from-home arrangements for employees who are not required to work onsite, as well as health screening procedures to track the health status of our employees and visitors to our premises. During the peak of the COVID-19 pandemic in early 2020, our business was affected to some extent by the nation-wide pandemic prevention and control requirements and market demand. However, we took immediately corrective measures to reduce the adverse effects of the COVID-19 pandemic. For instance, we ensured no interruption of our production by arranging sufficient manpower on site and promptly applying for transportation permits from local governments. As a result, our business has not encountered any stoppage due to the outbreak of COVID-19. Moreover, as the COVID-19 outbreak was quickly brought under control in mainland China, our business was not materially affected.

Recently, with the outbreak of Omicron variant, the logistics in some regions in mainland China have been affected to various degrees. However, as we made response plans and stocked inventories in advance, our business has not encountered any disruption, nor has our product delivery been substantively affected. Accordingly, our Directors believe that the outbreak of the COVID-19 pandemic will not have a material adverse effect on our Group's business, financial condition or results of operations.

BASIS OF PRESENTATION

We have prepared our consolidated financial statements in accordance with HKFRS issued by the HKICPA. We underwent Reorganization as described in "History, Reorganization and Corporate Structure – Reorganization", pursuant to which, the Company became the holding company of the companies now comprising the Group on April 9, 2010. The companies now comprising our Group were under the common control of our Controlling Shareholders before and after our Reorganization. Accordingly, our consolidated financial statements have been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries first came under the common control of our Controlling Shareholders, where this is a shorter period. The consolidated balance sheets of our Group as of December 31, 2020, 2021 and 2022 have been prepared to present the assets and liabilities of our subsidiaries using the existing book values from our Controlling Shareholders' perspective. No adjustments have been made to reflect fair values, or recognize any new assets or liabilities as a result of our Reorganization.

Equity interests in subsidiaries held by parties other than our Controlling Shareholders, and changes therein, prior to the Reorganization are presented as non-controlling interests in equity in applying the principles of merger accounting. All intra-group transactions and balances have been eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. Our significant accounting policies, judgments and estimates are set forth in detail in note 2 and 4 to the Accountant's Report included in Appendix I to this document. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Set out below are the significant accounting policies, which we believe are important for an understanding of our financial condition and results of operations.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to consolidated income statement during the Track Record Period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Buildings	20-30 years
– Motor vehicles	2-5 years
– Machinery and equipment	3-12 years
– Office equipment	3-5 years
– Decoration	2-5 years
– Leasehold improvement	shorter of useful life or lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated income statement.

Construction-in-progress is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Intangible Assets

Intangible assets include software and patent.

Separately acquired software and patent are shown at historical cost. These assets have finite useful lives, and are measured at costs less accumulated amortization. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

– Software 3-5 years

Impairment of Non-financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Investment and Other Financial Assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**") or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("**FVOCI**").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Current and Deferred Income Tax

The income tax expense or credit for the period is the tax payable 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.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Revenue Recognition

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group identified several performance obligations which are to sell products to the Group's distributors or directly to customers, to provide services to distributors.

Sales of products

The Group generates revenue from sales of electric bicycles, electric mopeds, electric motorcycles, batteries and electric two-wheeled vehicle parts through domestic and overseas distributors, corporate and institutional customers, third-party e-commerce platforms or self-operated online stores. The sales of products are recognized at a point in time, usually upon the acceptance by the customers.

When the Group sells its products through third-party e-commerce platforms, corporate and institutional customers, domestic and overseas distributors, they are the customers of the Group as they obtain control of the products before selling to end customers. Domestic and overseas distributors are generally required to pay advance before the acceptance of the products. A contract liability is recognized for the advance payment. Revenue from sales of products is recognized at a point in time when control of the products is transferred, usually upon the acceptance at the Group's warehouse by domestic distributors or the named place by third-party e-commerce platforms and corporate and institutional customers. Revenue from sales of products through overseas distributors is recognized when the products pass the ship's rail at the named port of shipment with free on board term.

When the Group sells its products to individual customers through its self-operated online stores, either established by the Group or established on third-party e-commerce platforms, revenue is recognized at a point in time when the products are accepted by the individual customers. Commission paid to third-party commerce platforms, which are considered as incremental costs of obtaining a contract, are expenses as incurred because the amortization period of the asset is less than one year.

The Group also provides sales volume rebate to domestic distributors. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume rebate. Accumulated experience is used to estimate the provision for the volume rebate, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The Group also provides reimbursement for store decoration to domestic distributors, which are in substance payment to customer. The reimbursement without committed sales volume is directly deducted from revenue, and the reimbursement with committed sales volume is capitalized as prepayment to domestic distributors and subsequently deducted from revenue which consistent with the method to recognize revenue from sales of products.

Sales returns are estimated based on historical experiences, which were insignificant for the years ended December 31, 2020, 2021 and 2022.

Provision of services

The Group generates revenue from training service and other services. Revenue from training service and other services are recognized when the services are rendered, which is based on the actual service provided up to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

Loyalty program

The Group operates a loyalty program where domestic distributors accumulate points for purchases made which entitle them to discounts on future purchases. A contract liability for the award points is recognized at the time of sale. Revenue is recognized when the points are redeemed.

Sales of goods to customer under a finance lease as a manufacturer lessor

The Group sells goods to certain customer under a finance lease as a manufacturer lessor. A manufacturer lessor is a lessor that manufactures the leased assets as part of its dealing activities. A manufacturer lessor that enters into a finance lease with a customer recognizes selling profit or loss in income as follows:

- Revenue is the fair value of the underlying assets or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest.

- Cost of sale is the cost, or carrying amount (if different), of the underlying asset, less the present value of the unguaranteed residual value.

- Selling profit or loss is the difference between revenue and the cost of sale, recognized in accordance with an entity's policy for outright sales to which HKFRS 15 applies.

Payment to distributors

Consideration payable to a customer should be deducted from revenue unless the payment to a customer is in exchange for a distinct good or service that the customer transfer to the entity. The Group paying for the store decoration fee to decoration companies for distributors is, in substance, a payment on behalf of customer. As the Group does not receive any distinct goods or services from distributors, the payment should be deducted from revenue.

When distributors have committed a minimum sales amount which in turn would request a minimum purchase amount from the Group, the payment is capitalized as "prepayment to distributors" and deducted from revenue on a systematic basis that is consistent with the transfer to the distributors of the goods. When distributors have not committed a minimum sales/purchase amount, the payment is deducted from revenue directly.

Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

SUMMARY OF RESULTS OF OPERATIONS DURING THE TRACK RECORD PERIOD

The following table sets forth our consolidated income statements for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue	2,378,332	100.0	3,417,687	100.0	4,783,023	100.0
Cost of Sales	(2,092,108)	(88.0)	(3,030,574)	(88.7)	(4,221,691)	(88.3)
Gross Profit	**286,224**	**12.0**	**387,113**	**11.3**	**561,332**	**11.7**
Selling and marketing costs	(121,423)	(5.1)	(192,388)	(5.6)	(259,567)	(5.4)
Administrative expenses	(61,420)	(2.6)	(64,444)	(1.9)	(89,059)	(1.9)
Research and development costs	(83,521)	(3.5)	(95,826)	(2.8)	(150,498)	(3.1)
(Provision)/reversal of impairment on financial assets	(6,174)	(0.3)	908	0.0	(1,650)	(0.0)
Other income	29,269	1.2	26,816	0.8	37,750	0.8
Other expense	(5,644)	(0.2)	(4,883)	(0.1)	(6,093)	(0.1)
Other gains – net	6,201	0.3	11,222	0.3	33,567	0.7
Operating profit	**43,512**	**1.8**	**68,518**	**2.0**	**125,782**	**2.6**
Finance income	6,739	0.3	8,142	0.2	21,038	0.4
Finance costs	(6,911)	(0.3)	(15,383)	(0.5)	(24,773)	(0.5)
Finance costs – net	**(172)**	**0.0**	**(7,241)**	**(0.2)**	**(3,735)**	**(0.1)**
Share of results of associates	(23)	(0.0)	314	0.0	201	0.0
Profit before income tax	**43,317**	**1.8**	**61,591**	**1.8**	**122,248**	**2.6**
Income tax expense	(3,036)	(0.1)	(2,331)	(0.1)	(4,218)	(0.1)
Profit for the year	**40,281**	**1.7**	**59,260**	**1.7**	**118,030**	**2.5**
Attributable to:						
Equity holders of the Company	40,293	1.7	59,260	1.7	118,030	2.5
Non-controlling interests	(12)	(0.0)	–	–	–	–
	40,281	**1.7**	**59,260**	**1.7**	**118,030**	**2.5**

DESCRIPTION OF KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we derived substantially all of our revenue from sales of our electric two-wheeled vehicles as well as batteries and spare parts. Our electric two-wheeled vehicles comprise electric bicycles, electric mopeds, electric motorcycles and other special function vehicles, such as electric sightseeing vehicles. We also provide training and other services to our distributors and collect service fees from them. Over 90% of our revenue and operating profit were generated in mainland China and over 90% of our non-current assets and liabilities were located in mainland China.

The following table sets forth a breakdown of our revenue by type of products or services for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Types of products						
Electric bicycles	1,010,096	42.5	1,423,625	41.7	2,232,086	46.7
Electric mopeds	722,892	30.4	495,043	14.5	258,177	5.4
Electric motorcycles	244,920	10.3	686,672	20.1	953,887	19.9
Batteries	306,366	12.9	606,128	17.7	1,052,365	22.0
Electric two-wheeled vehicle parts	60,220	2.5	147,793	4.3	226,164	4.7
Others	11,430	0.5	5,446	0.2	5,090	0.1
Subtotal	2,355,924	99.1	3,364,707	98.5	4,727,769	98.8
Types of services						
Training services	10,421	0.4	28,081	0.8	36,765	0.8
Others	11,987	0.5	24,899	0.7	18,489	0.4
Subtotal	22,408	0.9	52,980	1.5	55,254	1.2
Total	**2,378,332**	**100.0**	**3,417,687**	**100.0**	**4,783,023**	**100.0**

Our revenue increased from RMB2,378.3 million in 2020 to RMB4,783.0 million in 2022, representing a CAGR of 41.8%. Revenue from electric bicycles increased from RMB1,010.1 million in 2020 to RMB2,232.1 million in 2022, representing a CAGR of 48.7%. Revenue from electric motorcycles increased from RMB244.9 million in 2020 to RMB953.9 million in 2022, representing a CAGR of 97.3%. Such increases were primarily due to the significant increase in the sales volume of both our electric bicycles and electric motorcycles during the Track Record Period. Revenue from electric mopeds decreased from RMB722.9 million in 2020 to RMB258.2 million in 2022, primarily due to changes in consumer preferences caused by the implementation of the New National Standards, which imposed new restrictions on the specifications of electric mopeds. Under the New National Standards, electric mopeds must not be designed to carry people and a valid license is required to ride an electric moped. These restrictions make electric mopeds a less favorable choice for consumers than other types of electric two-wheeled vehicles, leading to a decline in customer demand. We therefore adjusted our product mix by promoting the production and sales of electric bicycles and electric motorcycles. Electric bicycles, being the most popular type of electric two-wheeled vehicles for consumers and our main focus, accounted for the largest proportion of our revenue during the Track Record Period.

In addition, sales of batteries are also an important source of revenue of the Group. Our products sold to end customers are usually equipped with our batteries. Revenue from sales of batteries increased from RMB306.4 million in 2020 to RMB1,052.4 million in 2022, representing a CAGR of 85.3%, primarily due to (i) the increase in the sales volume of electric bicycles and electric motorcycles, especially to end customers, and (ii) an increase in the market price of batteries.

We sold our products primarily through offline distributors. Revenue from offline channels increased from RMB1,664.8 million in 2020 to RMB4,245.0 million in 2022 at a CAGR of 59.7%.

We also distribute our products through online channels comprising our self-operated online stores on major e-commerce platforms and social media platforms. Revenue from online channels increased from RMB97.6 million in 2020 to RMB271.7 million in 2022 at a CAGR of 66.9%.

We actively developed corporate and institutional clients during the Track Record Period. With the rise of shared economy and on-demand e-commerce, especially those that utilize electric two-wheeled vehicles, we customized and manufactured electric two-wheeled vehicles for a number of leading shared mobility service providers and on-demand e-commerce brands, and other corporate and institutional customers. As a result, revenue contribution from corporate and institutional clients soared in 2020, whereas the proportion of revenue from offline distributors declined in the same year. Revenue from corporate and institutional clients decreased from RMB554.0 million in 2020 to RMB96.4 million in 2022 because in 2021, considering the shared mobility market being highly competitive and close to saturation, we adjusted our sales and marketing strategy for risk control purposes and strove to expand our offline distributor network to promote the sales of our self-developed products. We then scaled down our sales to corporate and institutional clients, leading to the significant decrease in revenue from corporate and institutional clients in 2022. Revenue from offline distributors, on the other hand, accounted for an increasing proportion of total revenue from sales of products after 2020.

We are also actively expanding into oversea markets. Revenue from overseas distributors increased from RMB39.5 million in 2020 to RMB114.6 million in 2022 at a CAGR of 70.3%.

The following table sets forth a breakdown of our revenue from sales of our products by sales channel for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Offline channels	1,664,844	70.7	2,771,684	82.4	4,245,048	89.8
– Eastern China	884,198	37.5	1,517,639	45.1	2,508,014	53.0
– Central and Southern China	463,614	19.7	756,718	22.5	1,090,314	23.1
– Southwestern China	87,193	3.7	134,292	4.0	250,946	5.3
– Northern China	117,044	5.0	217,198	6.5	218,029	4.6
– Other regions	112,795	4.8	145,837	4.3	177,745	3.8
Online channels	97,550	4.1	108,768	3.2	271,697	5.7
Corporate and institutional clients	554,037	23.5	421,003	12.5	96,427	2.1
Overseas distributors	39,493	1.7	63,252	1.9	114,597	2.4
Total	2,355,924	100.0	3,364,707	100.0	4,727,769	100.0

Our major products comprise electric bicycles, electric mopeds and electric motorcycles. During the Track Record Period, the total sales volume of our products reached 1.5 million units, 1.9 million units and 2.4 million units for the year ended December 31, 2020, 2021 and 2022, respectively, representing a CAGR of 28.4%. The sales volume of electric bicycles and electric motorcycles grew rapidly from 873.7 thousand units and 144.9 thousand units in 2020 to 1,705.3 thousand units and 546.6 thousand units in 2022 at a CAGR of 39.7% and 94.2%, respectively. Such increases was primarily due to (i) an increase in customer demand as consumers were motivated to replace their electric two-wheeled vehicles on hand with new models manufactured in accordance with the New National Standards towards the end of the transition periods of the New National Standards in several provinces in the PRC, (ii) our enhanced production capability and (iii) the launch of several new products that were popular with consumers and our active sales and marketing campaigns for them. In addition, the growth of sales volume of our electric bicycles and electric motorcycles during the Track Record Period was faster than market trends because we focused more on the promotion and development of electric bicycles and electric motorcycles concerning the diminishing favorability of electric mopeds due to the implementation of New National Standards. The New National Standards imposed new restrictions on the specifications of electric mopeds that made it a less favorable choice for consumers than other types of electric two-wheeled vehicles, leading to a decline in customer demand. As a result, the sales volume of electric mopeds decreased by 26.7% from 451.5 thousand units in 2020 to 330.9 thousand units in 2021, and further decreased by 47.9% to 172.5 thousand units in 2022. According to Frost & Sullivan, average selling prices of electric bicycles, electric mopeds and electric motorcycles in the PRC increased slightly at CAGRs of 2.8%, 2.7% and 2.6%, respectively, during the Track Record Period. We believe the growth of average selling prices of our electric bicycles and electric motorcycles generally followed the market trends during the Track Record Period while the average selling price of our electric mopeds decreased slightly mainly due to our considerations of future decline in customer demand for electric mopeds in light of the implementation of the New National Standards. The following table sets forth the sales volume and average selling prices per unit of our electric vehicles (excluding batteries) for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit	Sales volume	Average selling price per unit
	unit	*RMB*	*unit*	*RMB*	*unit*	*RMB*
Electric bicycles	873,708	1,156	1,218,462	1,168	1,705,300	1,309
Electric mopeds	451,504	1,601	330,913	1,496	172,467	1,497
Electric motorcycles	144,874	1,691	398,304	1,724	546,601	1,745
Others	2,379	4,805	654	8,327	199	25,580
Total	**1,472,465**	**1,351**	**1,948,333**	**1,340**	**2,424,567**	**1,423**

Cost of Sales

Our cost of sales primarily consists of raw materials and consumables, employee benefits expenses and others.

The key raw materials and consumables for our operations primarily include batteries, including lead-acid batteries and lithium-ion batteries, motors, frames and iron spare parts, plastic parts, shock absorbers and tires. The market price of batteries increased constantly during the Track Record Period.

Employee benefits expenses primarily consist of wages, salaries, bonuses and various other employee benefits paid to production personnel.

The following table sets forth a breakdown of our cost of sales for the years indicated:

	For the year ended December 31,					
	2020		**2021**		**2022**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials and consumables used	1,920,690	91.8	2,775,258	91.5	3,883,483	92.0
– Batteries	320,814	15.4	595,017	19.6	1,124,547	26.6
– Motors	259,927	12.4	404,513	13.3	544,813	12.9
– Frames and iron spare parts	255,788	12.2	368,548	12.2	375,365	8.9
– Plastic parts	230,531	11.0	311,854	10.3	395,400	9.4
– Shock absorbers	131,813	6.3	179,690	5.9	201,254	4.8
– Tires	90,008	4.3	112,463	3.7	141,438	3.4
– Others	631,809	30.2	803,173	26.5	1,100,666	26.1
Employee benefits expenses	44,392	2.1	74,757	2.5	111,432	2.6
Others*Note*	127,026	6.1	180,559	6.0	226,776	5.4
Total	**2,092,108**	**100.0**	**3,030,574**	**100.0**	**4,221,691**	**100.0**

Note: Others mainly include outsourcing labor fee, freight, depreciation of property, plant and equipment, expense relating to short-term leases or low value leases, tax and surcharges, design fee, office expense, advertising expenses, travel expenses, and consulting costs.

For illustration purpose only, we set out below a sensitivity analysis illustrating the impact of hypothetical fluctuations in the cost of raw materials and consumables used of our products on our gross profit, gross profit margin, profit before income tax and profit before income tax margin during the Track Record Period. Fluctuations are assumed to be 1% and 2% for the years indicated.

Change in gross profit (RMB in thousands, except for percentages)
For the year ended December 31,

	2020			2021			2022		
	Effect on			Effect on			Effect on		
Change in cost of raw materials and consumables used	Gross profit	(Decrease)/ increase in percentage	Gross profit margin	Gross profit	(Decrease)/ increase in percentage	Gross profit margin	Gross profit	(Decrease)/ increase in percentage	Gross profit margin
Increase by 2%	247,810	(13.4)	10.4	331,608	(14.3)	9.7	483,662	(13.8)	10.1
Increase by 1%	267,017	(6.7)	11.2	359,360	(7.2)	10.5	522,497	(6.9)	10.9
Decrease by 1%	305,431	6.7	12.8	414,866	7.2	12.1	600,167	6.9	12.5
Decrease by 2%	324,638	13.4	13.6	442,618	14.3	13.0	639,002	13.8	13.4

Change in profit before income tax (RMB in thousands, except for percentages)
For the year ended December 31,

	2020			2021			2022		
	Effect on			Effect on			Effect on		
Change in cost of raw materials and consumables used	Profit before income tax	(Decrease)/ increase in percentage	Profit before income margin	Profit before income tax	(Decrease)/ increase in percentage	Profit before income margin	Profit before income tax	(Decrease)/ increase in percentage	Profit before income margin
Increase by 2%	4,926	(88.6)	0.2	6,086	(90.1)	0.2	44,578	(63.5)	0.9
Increase by 1%	24,133	(44.3)	1.0	33,838	(45.1)	1.0	83,413	(31.8)	1.7
Decrease by 1%	62,547	44.4	2.6	89,344	45.1	2.6	161,083	31.8	3.4
Decrease by 2%	81,754	88.7	3.4	117,096	90.1	3.4	199,918	63.5	4.2

Gross Profit and Gross Profit Margin

Our gross profit represents the excess of revenue over costs of sales. Gross profit margin represents gross profit as a percentage of revenue. The following table sets forth a breakdown of our gross profit and gross profit margins of our products (excluding provision of services) by type of products for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Electric bicycles	94,710	9.4	101,192	7.1	272,800	12.2
Electric mopeds	94,495	13.1	39,808	8.0	32,511	12.6
Electric motorcycles	37,529	15.3	88,247	12.9	142,595	14.9
Batteries	23,849	7.8	71,473	11.8	15,403	1.5
Electric two-wheeled vehicle parts	12,540	20.8	32,739	22.2	41,496	18.3
Others	694	6.1	673	12.4	1,273	25.0
Total	**263,817**	**11.2**	**334,133**	**9.9**	**506,078**	**10.7**

The gross profit margin of sales of products decreased from 11.2% in 2020 to 9.9% in 2021, primarily because we promoted the sales of entry-level models with relatively lower margins to expand offline sales channels to capture market share. The entry-level models of our products have basic riding functions and simple appearance, whereas our mid-to-high end models are usually made of better materials, equipped with better motors and have well-designed appearance. Moreover, our mid-to-high end models offer a variety of intelligent functions, such as NFC unlocking and Bluetooth communication to link to users' mobile phones. These features enable us to charge a price premium for mid-to-high models as compared to entry-level models with a range from RMB200 per unit to RMB300 per unit in general. The increase in sales of entry-level models largely contributed to the decrease in our gross profit margin of sales of products in 2021. The sales volume of our typical entry-level models, such as Model MH5 (歐月), FBV (卡樂03), FBG (樂騎01), FBG2 (小果粒) and ZAF3 (小錢龜), increased significantly from 45.9 thousand units in 2020 to 352.3 thousand units in 2021, representing 3.1% and 18.1% of total sales volume of our electric vehicles in 2020 and 2021, respectively.

The gross profit margin of sales of products increased from 9.9% in 2021 to 10.7% in 2022, primarily due to (i) the decrease in average procurement costs as a result of economies of scale derived from our rising sales volume, and (ii) the development and launch of several mid-to-high end models of electric bicycles and electric motorcycles, which had relatively higher margins. In 2022, we developed and launched several mid-to-high end models of electric bicycles and electric motorcycles to enhance product competitiveness and brand image. The typical mid-to-high end models launched in 2022 included Model COLA3, FBZ3 (樂騎05), FBQ (卡樂05), MKK-Jiying (極影), MODA2 and S10. The sales volume of these models reached 246.4 thousand units in the year, leading to an increase in our gross profit margin of sales of products.

The following table sets forth a breakdown of our gross profit and gross profit margins of our products (excluding provision of services) by sales channels for the years indicated:

	For the year ended December 31,					
	2020		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
	(In thousands, except for percentages)					
Offline channels	167,489	10.1	261,430	9.4	401,276	9.5
Online channels	17,913	18.4	18,468	17.0	54,674	20.1
Corporate and institutional clients	64,539	11.6	35,369	8.4	14,406	14.9
Overseas distributors	13,875	35.1	18,867	29.8	35,721	31.2
Total	**263,817**	**11.2**	**334,133**	**9.9**	**506,078**	**10.7**

During the Track Record Period, the gross profit margin of our sales through offline channels decreased from 10.1% in 2020 to 9.5% in 2022, primarily due to the change in our product mix. The sales volume of our electric bicycles, which had relatively lower margins compared with our other types of products, as a percentage of total sales volume through offline channels increased from 39.1% in 2020 to 69.0% in 2022. The gross profit margin of our sales through online channels increased from 18.4% in 2020 to 20.1% in 2022, primarily due to an increase in sales volume of mid-to-high end models with relatively higher margins sold through online channels, such as Model INNO9 and S30-S. The gross profit margin of sales to corporate and institutional clients decreased from 11.6% in 2020 to 8.4% in 2021, then increased to 14.9% in 2022, primarily because the gross profit margin of products sold to corporate and institutional clients varied considerably as we generally provided customized products to them.

The gross profit margin of our sales through overseas distributors is higher than that of other channels, primarily because the overseas markets are relatively less competitive so that we are able to price our products more flexibly to earn more profit.

The gross profit margin of provision of training and other services during the Track Record Period was 100% because these services were provided by our sales team who were primarily responsible for the sales of our products and management of our distribution network and therefore no direct costs were incurred for such services.

Selling and Marketing Costs

Our selling and marketing costs primarily include employee benefits expenses, advertising expense, travel expense, consulting costs, outsourcing labor fee, depreciation of property, plant and equipment, expense relating to short-term leases or low value leases and office expense.

The following table sets forth a breakdown of our selling and marketing costs for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefits expenses	43,644	63,939	92,705
Advertising expense	30,013	78,734	78,567
Online channels	22,951	61,618	58,234
Offline channels	7,062	17,116	20,333
Travel expense	11,214	17,665	26,456
Consulting costs	6,321	4,536	17,170
Outsourcing labor fee	8,154	4,863	6,284
Depreciation of property, plant and equipment	4,427	4,104	4,904
Expense relating to short-term leases or low value leases	1,011	2,369	5,940
Office expense	4,279	6,919	8,270
Others[Note]	12,360	9,259	19,271
Total	**121,423**	**192,388**	**259,567**

Note: Others mainly include depreciation of right-of-use assets and IT system fee.

Our selling and marketing costs increased from RMB121.4 million in 2020 to RMB259.6 million in 2022 at a CAGR of 46.2%, primarily due to (i) the expansion of our sales and marketing team and pay rises, resulting in an increase in employee benefits expenses, and (ii) the increased advertisement placement and increased consulting costs for brand building.

Administrative Expenses

Our administrative expenses primarily consist of employee benefits expenses, depreciation of property, plant and equipment, consulting costs, [**REDACTED**] expenses, office expense, travel expense, depreciation of right-of-use assets and amortization of intangible assets.

The following table sets forth a breakdown of our administrative expenses for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefits expenses	20,621	25,502	29,891
Depreciation of property, plant and equipment	10,538	9,968	13,699
Consulting costs	3,667	5,743	7,971
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Office expense	12,211	8,620	9,062
Travel expense	2,823	4,104	4,110
Depreciation of right-of-use assets	5,705	4,659	2,278
Amortization of intangible assets	1,077	969	940
Others*Note*	4,778	4,676	6,021
Total	**61,420**	**64,444**	**89,059**

Note: Others mainly include auditors' remuneration, outsourcing labor fee and expense relating to short-term leases or low value leases.

Our administrative expenses increased from RMB61.4 million in 2020 to RMB89.1 million in 2022 at a CAGR of 20.4%, primarily due to (i) the increased headcount and pay rises as a result of our business expansion, leading to the increased employee benefits expenses, and (ii) the increased [**REDACTED**] expenses incurred during the Track Record Period.

Research and Development Costs

Our research and development costs primarily consist of employee benefits expenses, design fee, depreciation of property, plant and equipment and raw materials and consumables used.

The following table sets forth a breakdown of our research and development costs for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Employee benefits expenses	31,394	36,848	59,027
Design fee	24,985	25,112	35,218
Depreciation of property, plant and equipment	11,580	14,032	14,412
Raw materials and consumables used	13,861	17,616	36,430
Others*Note*	1,701	2,218	5,411
Total	**83,521**	**95,826**	**150,498**

Note: Others mainly include travel expense, consulting costs, expense relating to short-term leases or low value leases and office expense.

Our research and development costs increased from RMB83.5 million in 2020 to RMB150.5 million in 2022 at a CAGR of 34.2%, primarily due to (i) the increased number of research and development staff and pay rises, leading to the increased employee benefits expenses, and (ii) the increased raw materials and consumables used and other direct input as a result of the development of new products.

(Provision)/Reversal of Impairment on Financial Assets

Provision or reversal of impairment on financial assets primarily represents provision or reversal of impairment on trade receivables, other receivables and notes receivables. We incurred provision of impairment on financial assets of RMB6.2 million and RMB1.7 million for the year ended December 31, 2020 and 2022, respectively. We recognized reversal of impairment on financial assets of RMB0.9 million in 2021. We performed impairment assessment for receivables under expected credit loss model. For details, see note 3.1.2(a) to the Accountant's Report included in Appendix I to this document.

Other Income

Our other income primarily consists of income of obsolete material and work in progress, income of operating lease, interest income from related and third parties, interest income from time deposits and government grants.

The following table sets forth a breakdown of our other income for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Income of obsolete material and work in progress	5,595	9,016	8,041
Income of operating lease	1,131	845	1,520
Interest income from related and third parties	6,159	3,463	31
Interest income from time deposits	3,822	729	2,399
Government grants	11,576	10,194	20,549
Others	986	2,569	5,210
Total	**29,269**	**26,816**	**37,750**

Government grants from local government primarily consist of (i) general support from government, such as industry support, rewards for our contribution to the local economic growth and incentives to encourage research and development investments, (ii) subsidies for stabilizing employment, (iii) tax refunds and VAT deductions and (iv) subsidies to relieve COVID-19 impacts. There are no unfulfilled conditions or other contingencies relating to these grants.

The following table sets forth a breakdown of our government grants by types for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
General support from government[1]	5,774	8,684	11,463
Subsidies for stabilizing employment[2]	1,102	1,047	1,837
Tax refunds and VAT deductions[3]	2,383	209	6,098
Subsidies to relieve COVID-19 impacts[4]	1,006	174	727
Others[5]	1,312	79	423
Total	**11,576**	**10,194**	**20,549**

Notes:

1. General support from government, such as industry support, rewards for contribution to the local economic growth and incentives to encourage research and development investments, represents both recurring and nonrecurring subsidies from local government after meeting certain requirements imposed by various policies or for engaging in certain specific industries, which were recognized as other income when the incurred operating expenses fulfilled the conditions attached. The government grants received are usually not subject to fulfillment of further conditions.

2. Subsidies for stabilizing employment are ongoing subsidies from local government during the Track Record Period for creating jobs and organizing employee training programs.

3. We usually received VAT deductions each year pursuant to the national tax policy. The amount of tax refunds we may receive each year depends on local tax policies, local government finances and our own financial performance in the year.

4. Subsidies to relieve COVID-19 impacts are one-off subsidies received during the COVID-19 pandemic.

5. Others mainly include one-off small subsidies from local government.

The fluctuation in our government grants received was primarily due to the continuous increase in general support from government that was distributed at the discretion of local government and was generally in line with our business expansion and increasing research and development costs.

Other Expense

Our other expense primarily consists of cost of obsolete material and work in progress. The following table sets forth a breakdown of our other expense for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Cost of obsolete material and work in progress	5,362	3,050	4,475
Others	282	1,833	1,618
Total	**5,644**	**4,883**	**6,093**

Other Gains – Net

Our other gains – net primarily consist of exchange gains or losses, fair value changes on financial assets at fair value through profit or loss ("**FVTPL**"), donation, losses or gains on disposal of property, plant and equipment and right-of-use assets, gains from disposal of a subsidiary and gains from disposal of associates. The following table sets forth a breakdown of our other gains for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Exchange (losses)/gains	(733)	(16)	1,121
Fair value changes on financial assets at FVTPL	8,674	14,857	19,588
Donation	(1,842)	(372)	(671)
(Losses)/gains on disposal of property, plant and equipment and right-of-use assets	(1,897)	(761)	1,706
Gains from disposal of a subsidiary	–	–	27
Gains from disposal of associates	–	–	6,840
Others – net	1,999	(2,486)	4,956
Total	**6,201**	**11,222**	**33,567**

Fair value changes on financial assets at FVTPL represent the realized and unrealized gains on certificate of deposits, wealth management products and structured deposits we have purchased from certain reputable commercial banks.

Gains from disposal of a subsidiary derived from the disposal of our subsidiary, LYVA COMPANY LIMITED, in September 2022.

Gains from disposal of associated companies derived from the disposal of Fujian Yizhou and Hangzhou Guangyang in 2022.

Finance Costs – Net

Our finance income mainly comprises interest income on bank deposits. Our interest income on bank deposits increased significantly in 2022, primarily due to the increased balance of bank deposits derived from operating cash inflows and the increase in bank deposit interest rates. Our finance costs mainly comprise interest on bank loans and other loans, and interests on lease liabilities. The following table sets forth a breakdown of our finance costs – net for the years indicated:

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
Interest income on bank deposits	6,739	8,142	21,038
Finance costs			
Interest on bank loans and other loans	(6,609)	(15,200)	(24,682)
Interests on lease liabilities	(302)	(183)	(91)
Total finance costs	**(6,911)**	**(15,383)**	**(24,773)**
Net finance costs	**(172)**	**(7,241)**	**(3,735)**

Share of Results of Associates

Share of results of associates represents the profits attributable to us from our equity interest in Fujian Yizhou, Hangzhou Guangyang and Jinhua Luchi New Energy Technology Co., Ltd. For the years ended December 31, 2020, 2021 and 2022, our share of results of associates amounted to RMB(23,000), RMB314,000 and RMB201,000, respectively. We disposed our interest in Fujian Yizhou in the first half of 2022.

Income Tax Expense

For the years ended December 31, 2020, 2021 and 2022, we recognized income tax expense of RMB3.0 million, RMB2.3 million and RMB4.2 million, respectively, with an effective income tax rate of 7.0%, 3.8% and 3.5%, respectively. The statutory EIT rate for our businesses in mainland China during the Track Record Period is 25%, except that:

- In 2021, Zhejiang Luyuan applied the extension of the high-tech certificate original obtained in December 2009. The latest high-tech certificate was obtained in December 2021 with an effective period for three years. Its applicable EIT rate throughout the Track Record Period was 15%.

- In 2020, Shandong Luyuan applied the extension of the high-tech certificate originally obtained in December 2017. The latest high-tech certificate was obtained in August 2020 with an effective period for three years. Its applicable EIT rate throughout the Track Record Period was 15%.

- Jinhua Yicheng and Ludong (Jinhua) are small low-profit enterprises during the period from January 1, 2020 to December 31, 2022 and from January 1, 2021 to December 31, 2022, respectively. During the period from January 1, 2020 to December 31, 2020, the portion of annual taxable income amount of a small low-profit enterprise which does not exceed RMB1 million shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate; the portion of annual taxable income amount which exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 50% as taxable income amount, and be subject to EIT at 20% tax rate. During the period from January 1, 2021 to December 31, 2021, the portion of annual taxable income amount of a small low-profit enterprise which does not exceed RMB1 million shall be computed at a reduced rate of 12.5% as taxable income amount, and be subject to EIT at 20% tax rate; the portion of annual taxable income amount which exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 50% as taxable income amount, and be subject to EIT at 20% tax rate. During the period from January 1, 2022 to December 31, 2022, the portion of annual taxable income amount of a small low-profit enterprise which does not exceed RMB1 million shall be computed at a reduced rate of 12.5% as taxable income amount, and be subject to EIT at 20% tax rate; the portion of annual taxable income amount which exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 25% as taxable income amount, and be subject to EIT at 20% tax rate.

Our effective income tax rates during the Track Record Period was lower than the 25% statutory EIT rate, primarily due to (i) tax effect of preferential tax rate applicable to the abovementioned subsidiaries and (ii) tax credit for qualified research and development expenses. For details, see note 12 to the Accountant's Report included in Appendix I to this document.

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

The Directors had confirmed that retained earnings of the Group's subsidiaries in mainland China as of December 31, 2022 will not be distributed in the foreseeable future. The Group controls the dividend policies of these subsidiaries and it has been determined that the remaining earnings as of December 31, 2022 will not be distributed in the foreseeable future. The Group did not recognize deferred income tax for mainland China withholding income tax with amount of RMB40.9 million, RMB50.0 million and RMB60.5 million as of December 31, 2020, 2021 and 2022, respectively, on the remaining unremitted distributable profits generated by its subsidiaries in mainland China attributable to the investors outside mainland China with amount of RMB408.8 million, RMB500.4 million and RMB605.0 million as of December 31, 2020, 2021 and 2022, respectively.

During the Track Record Period and as of the Latest Practicable Date, we did not have any material dispute or unresolved issues with the relevant tax authorities.

Profit for the Year

As a result of the forgoing, in 2020, 2021 and 2022, we recorded profit for the year of RMB40.3 million, RMB59.3 million and RMB118.0 million, respectively. For the same years, our net profit margin was 1.7%, 1.7% and 2.5%. During the Track Record Period, in order to lay a solid foundation for long-term growth, we primarily focused on building scale in terms of both production capacity and distribution network and further developing and diversifying our product offerings, rather than seeking immediate increase in financial return. As a result, our annual production capacity increased from 1.8 million units in 2020 to 3.3 million units in 2022 and our distribution network expanded from over 5,400 retail outlets in 2020 to over 9,800 retail outlets in 2022.

Going forward, we plan to improve our profit margins primarily by: (i) growing our distribution network both domestically and internationally and (ii) increasing production efficiency. For details of our strategies and plans to grow our distribution network both domestically and international which we believe will allow us to increase our revenue, see "Business – Strategies – Further upgrade, expand and optimize the layout of our sales and distribution network", "Business – Strategies – Steadily expand our business in international markets" and "Future Plans and Proceeds". With respect to increasing production efficiency, we plan to (i) leverage the scale advantage following the expansion of our production capacity to enhance our bargaining power with upstream suppliers and lower the costs of our raw materials and components; (ii) strictly implement and continuously improve our operating procedures to increase the first-pass yield of our finished products; (iii) increase our production team's proficiency to our production processes to enhance their efficiency; (iv) seamlessly connect product development and design with production and optimize our production processes; and (v) further standardize and optimize production processes and parameters of commonly used parts and components in different models of our products to reduce waste during production and enhance production efficiency.

YEAR ON YEAR COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenue

Our revenue increased by 39.9% from RMB3,417.7 million in 2021 to RMB4,783.0 million in 2022, primarily due to (i) an increase in the overall sales volume of our products and (ii) an increase in the overall average selling price per unit of our products attributable to the increased revenue contribution from mid-to-high end electric bicycles and electric motorcycles.

Revenue from sales of products

Revenue from sales of electric two-wheeled vehicles increased by 32.2% from RMB2,605.3 million in 2021 to RMB3,444.2 million in 2022, primarily due to an increase in revenue from sales of electric bicycles and electric motorcycles. Revenue from sales of electric bicycles increased by 56.8% from RMB1,423.6 million in 2021 to RMB2,232.1 million in 2022. Revenue from sales of electric motorcycles increased by 38.9% from RMB686.7 million in 2021 to RMB953.9 million in 2022. The revenue growth in 2022 was partially offset by a 47.8% decrease in revenue from sales of electric mopeds from RMB495.0 million in 2021 to RMB258.2 million in 2022 due to changes in consumer preferences caused by the implementation of the New National Standards. The New National Standards imposed new restrictions on the specifications of electric mopeds, making them a less favorable choice for consumers than other types of electric two-wheeled vehicles.

The increase in revenue from electric bicycles and electric motorcycles was mainly derived from the growth of their respectively sales volume by 40.0% and 37.2% from 1.2 million and 0.4 million units in 2021 to 1.7 million and 0.5 million units in 2022, respectively. Such increases were primarily because (i) consumers were motivated to replace their electric two-wheeled vehicles on hand with new models manufactured in accordance with the New National Standards towards the end of the transition periods of the New National Standards in several provinces in the PRC, such as Zhejiang and Yunnan; (ii) our product capacity had been further improved from 2.1 million units in 2021 to 3.3 million units in 2022; (iii) we continued to launch new and popular products such as Model INNO9, S10 and MKK-Ji Ying (極影); (iv) we carried out more marketing and branding activities, including live streaming marketing; and (v) we had expanded our offline distribution network and the number of our distributors increased from 1,108 as of December 31, 2021 to 1,236 as of December 31, 2022 in mainland China. In addition, the average selling price per unit of our electric bicycles and electric motorcycles increased from RMB1,168 and RMB1,724 in 2021 to RMB1,309 and RMB1,745 in 2022, respectively, primarily due to the optimization of our product mix by introducing more mid-to-high end models, such as Model INNO9 and Model D-moda2 for electric bicycles and Model S10 and MKK-Ji Ying (極影) for electric motorcycles.

Revenue from sales of batteries increased by 73.6% from RMB606.1 million in 2021 to RMB1,052.4 million in 2022, primarily due to the growth of sales volume of batteries attributable to more electric two-wheeled vehicles sold to end customers that were generally equipped with our batteries.

Revenue from sales of electric two-wheeled vehicle parts increased by 53.0% from RMB147.8 million in 2021 to RMB226.2 million in 2022 along with the increased sales of our electric bicycles and electric motorcycles.

Revenue from other products decreased by 6.5% from RMB5.4 million in 2021 to RMB5.1 million in 2022, primarily due to a decrease in sales of our electric tricycles, partially offset by a slight increase in sales of our electric sightseeing vehicles.

Revenue from provision of services

Revenue from training service increased by 30.9% from RMB28.1 million in 2021 to RMB36.8 million in 2022, primarily due to an increase in the number of points of sales of our distributors.

Revenue from other services decreased by 25.7% from RMB24.9 million in 2021 to RMB18.5 million in 2022.

Cost of sales

Our cost of sales increased by 39.3% from RMB3,030.6 million in 2021 to RMB4,221.7 million in 2022. The increase was primarily attributable to an increase in raw materials and consumables used of RMB1,108.2 million primarily in line with our sales growth.

Gross profit

As a result of the foregoing, our gross profit increased by 45.0% from RMB387.1 million in 2021 to RMB561.3 million in 2022. Our gross profit margin increased from 11.3% in 2021 to 11.7% in 2022, primarily due to (i) sales growth of our new products launched in 2022 and (ii) the decrease in average procurement costs as a result of economies of scale.

Selling and marketing costs

Our selling and marketing costs increased by 34.9% from RMB192.4 million in 2021 to RMB259.6 million in 2022, primarily due to (i) an increase in employee benefits expenses of RMB28.8 million as a result of pay raises by an average of approximately 16.9% and increased headcount by approximately 24.0%, (ii) an increase in travel expense of RMB8.8 million in line with our business expansion and (iii) an increase in consulting costs of RMB12.6 million in relation to strategic consultation services provided by external independent third-party experts.

Administrative expenses

Our administrative expenses increased by 38.2% from RMB64.4 million in 2021 to RMB89.1 million in 2022, primarily due to (i) an increase in employee benefits expenses of RMB4.4 million as a result of pay raises by an average of approximately 27.7%, (ii) an increase in depreciation of property, plant and equipment of RMB3.7 million as a result of the acquisition of certain property that was previously leased, (iii) an increase in consulting costs of RMB2.2 million and (iv) an increase in [**REDACTED**] expenses of RMB[**REDACTED**].

Research and development costs

Our research and development costs increased by 57.1% from RMB95.8 million in 2021 to RMB150.5 million in 2022, primarily due to (i) an increase in employee benefits expenses of RMB22.2 million as a result of increased headcount by approximately 32.3% , (ii) an increase in design fee of RMB10.1 million as a result of the increase in the number of newly developed product models from 46 in 2021 to 72 in 2022 and (iii) an increase in raw materials and consumables used of RMB18.8 million.

(Provision)/reversal of impairment on financial assets

We recognized reversal of impairment on financial assets of RMB0.9 million in 2021 while we recognized provision of impairment on financial assets of RMB1.7 million in 2022, primarily attributable to an increase in the balance of trade and notes receivables as a result of business expansion.

Other income

Our other income increased by 40.8% from RMB26.8 million in 2021 to RMB37.8 million in 2022, primarily due to an increase in government grants received of RMB10.4 million.

Other expense

Our other expense increased by 24.8% from RMB4.9 million in 2021 to RMB6.1 million in 2022, primarily due to an increase in cost of obsolete material and work in progress of RMB1.4 million along with our increased production volume.

Other gains – net

Our other gains – net increased significantly by 199.1% from RMB11.2 million in 2021 to RMB33.6 million in 2022, primarily due to (i) gains from disposal of Fujian Yizhou of RMB6.8 million, (ii) an increase in gains on disposal of property, plant and equipment of RMB2.5 million as a result of the disposal of a mould used for our regular production, (iii) gains from disposal of LYVA COMPANY LIMITED of RMB0.3 million, (iv) exchange gains of RMB1.1 million attributable to the appreciation of RMB and (v) an increase in fair value changes on financial assets at FVTPL of RMB4.7 million, which represented gains from our investments in certificate of deposits, wealth management products and structured deposits.

Finance costs – net

Our net finance costs decreased by 48.4% from RMB7.2 million in 2021 to RMB3.7 million in 2022, primarily due to an increase in interest income on bank deposits of RMB12.9 million as a result of increased operational cash inflows driven by our sales growth.

Share of results of associates

Share of results of associates decreased by 36.0% from RMB314,000 in 2021 to RMB201,000 in 2022, primarily due to a decrease in net profit of these associated companies.

Income tax expense

Our income tax expense increased by 81.0% from RMB2.3 million in 2021 to RMB4.2 million in 2022, primarily due to the increased taxable income.

Profit for the year

As a result of the foregoing, our profit for the year increased significantly by 99.2% from RMB59.3 million in 2021 to RMB118.0 million in 2022.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by 43.7% from RMB2,378.3 million in 2020 to RMB3,417.7 million in 2021, primarily due to the increase in revenue contribution from electric bicycles and electric motorcycles as a result of the significant increase in sales volume of these two types of products.

Revenue from sales of products

Revenue from sales of electric two-wheeled vehicles increased by 31.7% from RMB1,977.9 million in 2020 to RMB2,605.3 million in 2021, primarily due to an increase in revenue from sales of electric bicycles and electric motorcycles as a result of the growth of sales volume, partially offset by a decrease in revenue from sales of electric mopeds as a result of changes in consumer preferences caused by the implementation of the New National Standards.

Revenue from sales of electric bicycles increased by 40.9% from RMB1,010.1 million in 2020 to RMB1,423.6 million in 2021, the sales volume increased by 39.5% from 873.7 thousand units in 2020 to 1,218.5 thousand units in 2021. Revenue from sales of electric motorcycles increased significantly by 180.4% from RMB244.9 million in 2020 to RMB686.7 million in 2021, the sales volume increased by 174.9% from 144.9 thousand units in 2020 to 398.3 thousand units in 2021. The increases in sales volume of electric bicycles and electric motorcycles were primarily because (i) consumers were motivated to replace their electric two-wheeled vehicles on hand with new models manufactured in accordance with the New National Standards; (ii) our product capacity had been improved from 1.8 million units in 2020 to 2.1 million units in 2021; (iii) we launched certain new products that were more popular with consumers, including Model INNO5 and 7 for electric bicycles and Model S30 for electric motorcycles; and (iv) we made greater efforts in marketing and branding.

Revenue from sales of batteries increased significantly by 97.8% from RMB306.4 million in 2020 to RMB606.1 million in 2021. The increase was partially in line with the increased sales of our electric two-wheeled vehicles. In addition, we negotiated with our battery suppliers for lower purchase prices of batteries, which enabled us to provide more batteries to distributors together with our products delivered to them.

Revenue from sales of electric two-wheeled vehicle parts increased by 145.4% from RMB60.2 million in 2020 to RMB147.8 million in 2021 along with the increased sales of our electric bicycles and electric motorcycles.

Revenue from other products decreased by 52.4% from RMB11.4 million in 2020 to RMB5.4 million in 2021, primarily due to a decrease in sales volume of our special function vehicles.

Revenue from provision of services

Revenue from training service and other services increased by 169.5% and 107.7% from RMB10.4 million and RMB12.0 million in 2020 to RMB28.1 million and RMB24.9 million in 2021, respectively, primarily in line with the increase in sales of our electric bicycles and electric motorcycles.

Cost of sales

Our cost of sales increased by 44.9% from RMB2,092.1 million in 2020 to RMB3,030.6 million in 2021, primarily due to an increase in raw materials and consumables used of RMB868.3 million in line with our sales growth. Cost of raw materials and consumables used increased by 44.5% from RMB1,920.7 million in 2020 to RMB2,775.3 million in 2022, among which cost of batteries increased significantly by 85.5% from RMB320.8 million in 2020 to RMB595.0 million in 2021, primarily due to (i) an increase in the sales volume of our products sold to end customers that were usually equipped with our batteries, and (ii) an increase in the market price of batteries.

Gross profit

As a result of the foregoing, our gross profit increased by 35.2% from RMB286.2 million in 2020 to RMB387.1 million in 2021. However, our gross profit margin decreased from 12.0% in 2020 to 11.3% in 2021, primarily because (i) the sales volume of electric bicycles, which had a relatively lower margin compared with our other products, as a proportion of total sales volume of our electric two-wheeled vehicles increased due to rising demand caused by the New National Standards; (ii) we cooperated with certain large distributors to expand market share and provided more sales rebates to maintain a good relationship with them; and (iii) the operation of our Guangxi Plant was at ramp up stage and incurred relatively higher production costs than our other production facilities.

Selling and marketing costs

Our selling and marketing costs increased by 58.4% from RMB121.4 million in 2020 to RMB192.4 million in 2021, primarily due to (i) an increase in employee benefits expenses of RMB20.3 million as a result of pay raises by an average of approximately 21.5% in view of our business expansion and (ii) an increase in advertising expense of RMB48.7 million attributable to increased advertising activities to expand our distribution channels and enhance our brand awareness, such as sponsoring five more variety shows and ad placement at public transportation vehicles or stations in over ten more cities.

Administrative expenses

Our administrative expenses increased by 4.9% from RMB61.4 million in 2020 to RMB64.4 million in 2021, primarily due to an increase in employee benefits expenses of RMB4.9 million as a result of pay raises by an average of approximately 7.1% in view of our business expansion.

Research and development costs

Our research and development costs increased by 14.7% from RMB83.5 million in 2020 to RMB95.8 million in 2021, primarily due to an increase in employee benefits expenses of RMB5.5 million and an increase in raw materials and consumables used of RMB3.8 million as a result of our research and development investments in the motors of our products and our continuous development of new product models.

(Provision)/reversal of impairment on financial assets

We incurred provision of impairment on financial assets of RMB6.2 million in 2020 while we recognized reversal of impairment on financial assets of RMB0.9 million in 2021, primarily attributable to a decrease in trade receivables due from corporate and institutional clients.

Other income

Our other income decreased by 8.4% from RMB29.3 million in 2020 to RMB26.8 million in 2021, primarily due to (i) a decrease in interest income from time deposits of RMB3.1 million and (ii) a decrease in interest income from related and third parties of RMB2.7 million, partially offset by an increase in income of obsolete material and work in progress of RMB3.4 million.

Other expense

Our other expense remained relatively stable at RMB5.6 million in 2020 and RMB4.9 million in 2021, respectively.

Other gains – net

Our other gains – net increased by 81.0% from RMB6.2 million in 2020 to RMB11.2 million in 2021, primarily due to an increase in fair value changes on financial assets at FVTPL of RMB6.2 million derived mainly from certificate of deposits we invested in 2021.

Finance costs – net

We recorded net finance costs of RMB0.2 million in 2020 while we incurred net finance costs of RMB7.2 million in 2021, primarily due to an increase in interest on bank loans and other loans of RMB8.6 million attributable to the increase in our outstanding bank loans.

Share of results of associates

Share of results of associates turned around from loss of RMB23,000 in 2020 to profit of RMB314,000 in 2021 in light of the improvement in performance of these associated companies.

Income tax (expense)/credit

Our income tax expense decreased by 23.2% from RMB3.0 million in 2020 to RMB2.3 million in 2021, primarily due to (i) an increase in tax effect of preferential tax rate of RMB1.2 million and (ii) an increase in super deduction in respect of research and development expenditures of RMB5.2 million.

Profit for the year

As a result of the foregoing, our profit for the year increased by 47.1% from RMB40.3 million in 2020 to RMB59.3 million in 2021.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the year ended December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Operating profit before working capital changes	93,310	111,977	170,422
Changes in working capital	(107,774)	26,939	320,702
Interest received on bank deposits	6,738	8,143	21,038
Income tax paid	(2,645)	(2,671)	(2,270)
Net cash (used in)/generated from operating activities	**(10,371)**	**144,388**	**509,892**
Net cash used in investing activities	**(31,062)**	**(562,522)**	**(294,096)**
Net cash generated from/(used in) financing activities	**8,371**	**464,851**	**(44,864)**
Net (decrease)/increase in cash and cash equivalents	**(33,062)**	**46,717**	**170,932**
Cash and cash equivalents at beginning of the year	209,504	175,370	222,012
Effect of foreign exchange rate changes, net	(1,072)	(75)	2,094
Cash and cash equivalents at end of the year	**175,370**	**222,012**	**395,038**

Net Cash Generated from/(Used in) Operating Activities

For the year ended December 31, 2022, our net cash generated from operating activities of RMB509.9 million was primarily attributable to our operating profit before working capital changes of RMB170.4 million, as adjusted by (i) changes in working capital of RMB320.7 million, (ii) interest received on bank deposits of RMB21.0 million and (iii) income tax paid of RMB2.3 million. Changes in working capital mainly consisted of an increase in trade and notes payables of RMB433.2 million, partially offset by an increase in trade and notes receivables of RMB149.0 million, which was generally in line with our business growth.

For the year ended December 31, 2021, our net cash generated from operating activities of RMB144.4 million was primarily attributable to our operating profit before working capital changes of RMB112.0 million, as adjusted by (i) changes in working capital of RMB26.9 million, (ii) interest received on bank deposits of RMB8.1 million and (iii) income tax paid of RMB2.7 million. Changes in working capital mainly consisted of (i) an increase in trade and notes payables of RMB370.0 million and (ii) an increase in debt instruments at FVOCI of RMB85.8 million, partially offset by (iii) a decrease in other receivables and prepayments of RMB259.5 million and (iv) a decrease in inventories of RMB179.6 million.

For the year ended December 31, 2020, our net cash used in operating activities of RMB10.4 million was primarily attributable to our operating profit before working capital changes of RMB93.3 million, as adjusted by (i) changes in working capital of RMB107.8 million, (ii) interest received on bank deposits of RMB6.7 million and (iii) income tax paid of RMB2.6 million. Changes in working capital mainly consisted of (i) an increase in debt instruments at FVOCI of RMB140.1 million representing bank acceptance bills from corporate and institutional clients as sales to corporate and institutional clients typically had a longer payment collection period and (ii) a decrease in inventories of RMB73.6 million, partially offset by (iii) an increase in restricted cash of RMB88.2 million and (iv) an increase in other receivables and prepayments of RMB15.4 million.

Net Cash (Used in)/Generated from Investing Activities

For the year ended December 31, 2022, net cash used in investing activities was RMB294.1 million, which was primarily attributable to (i) purchase of property, plant and equipment of RMB224.3 million and (ii) payments for financial assets at FVTPL of RMB286.0 million which represented purchases of wealth management products and structured deposits, partially offset by (iii) proceeds from financial assets at FVTPL of RMB198.4 million which was redemption of wealth management products and structured deposits.

For the year ended December 31, 2021, net cash used in investing activities was RMB562.5 million, which was primarily attributable to (i) purchase of property, plant and equipment of RMB317.1 million and (ii) payments for financial assets at FVTPL of RMB1,124.7 million, partially offset by (iv) proceeds from financial assets at FVTPL of RMB857.0 million.

For the year ended December 31, 2020, net cash used in investing activities was RMB31.1 million, which was primarily attributable to (i) purchase of property, plant and equipment of RMB80.3 million and (ii) payments for financial assets at FVTPL of RMB1,602.9 million, partially offset by (iii) proceeds from financial assets at FVTPL of RMB1,660.4 million.

Net Cash Generated from/(Used in) Financing Activities

For the year ended December 31, 2022, net cash used in financing activities was RMB44.9 million, which was primarily attributable to (i) repayments of borrowings of RMB922.9 million, partially offset by (ii) proceeds from borrowings of RMB913.4 million.

For the year ended December 31, 2021, net cash generated from financing activities was RMB464.9 million, which was primarily attributable to proceeds from borrowings of RMB950.7 million, partially offset by repayments of borrowings of RMB470.9 million.

For the year ended December 31, 2020, net cash generated from financing activities was RMB8.4 million, which was primarily attributable to proceeds from borrowings of RMB649.3 million, partially offset by repayments of borrowings of RMB628.5 million.

WORKING CAPITAL

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

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)
Current assets				
Inventories	208,489	388,071	445,672	396,886
Trade and notes and lease receivables	137,929	157,870	294,809	305,634
Other receivables and prepayments	171,415	316,075	132,632	130,078
Financial assets at fair value through profit or loss	63,564	428,027	533,565	581,881
Debt instruments at fair value through other comprehensive income	175,832	118,957	95,229	168,637
Time deposits	20,004	42,000	119,200	153,510
Restricted cash	16,665	32,615	81,820	123,300
Cash and cash equivalents	175,370	222,012	395,038	483,587
	969,268	1,705,627	2,097,965	2,343,513

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current liabilities				
Trade and notes and other payables	818,943	1,306,601	1,704,646	1,741,635
Contract liabilities	57,132	82,888	96,384	63,382
Borrowings	155,912	523,051	286,862	450,837
Provisions	4,510	6,477	4,576	6,182
Lease liabilities	3,299	2,140	2,798	1,559
Income tax liabilities	10,877	18,692	19,872	20,444
	1,050,673	1,939,849	2,115,138	2,284,039
Net current liabilities	**(81,405)**	**(234,222)**	**(17,173)**	**59,474**

We recorded net current liabilities of RMB81.4 million, RMB234.2 million and RMB17.2 million as of December 31, 2020, 2021 and 2022, mainly due to the bank loans for the expansion of our production capabilities, including the construction of our Guangxi Plant and our intelligent factory in Zhejiang Plant. To improve our net current liabilities position and ensure working capital sufficiency, we have negotiated with banks to obtain medium or long-term loans to replace our short-term loans, which primarily resulted in our net current liabilities during the Track Record Period. As of December 31, 2020, 2021 and 2022, we have successfully obtained nil, RMB143.0 million and RMB369.7 million medium and long-term loans. As a result, our net current liabilities position by the end of the Track Record Period had been largely improved compared with previous years. In addition, we intend to further expand our sales scale and enhance operating efficiency, so as to increase our net profit and eventually improve our net current liabilities position. As of April 30, 2023, we recorded net current assets of RMB59.5 million. We will continue to improve capital turnover and increase the proportion of current assets in our total assets.

We recorded net current liabilities of RMB17.2 million as of December 31, 2022 whereas we recorded net current assets of RMB59.5 million as of April 30, 2023, primarily due to (i) an increase in cash and cash equivalents of RMB88.5 million attributable to our operating cash inflows resulted from our sales growth, (ii) an increase in debt instruments at fair value through other comprehensive income of RMB73.4 million as a result of the increasing use of acceptance bills by our distributors, and (iii) an increase in financial assets at FVTPL of RMB48.3 million representing our investments in certificate of deposits, wealth management products and structured deposits using idle cash, partially offset by an increase in current borrowings of RMB164.0 million.

Our net current liabilities decreased by 92.7% from RMB234.2 million as of December 31, 2021 to RMB17.2 million as of December 31, 2022, primarily due to (i) an increase in cash and cash equivalents of RMB173.0 million attributable to our operating cash inflows resulted from our sales growth, (ii) an increase in trade and notes and lease receivables of RMB136.9 million in line with our business expansion, (iii) an increase in financial assets at FVTPL of RMB105.5 million, and (iv) a decrease in current borrowings of RMB236.2 million, partially offset by an increase in trade and notes and other payables of RMB398.0 million attributable to our expansion and our slowed-down payments to suppliers as the prices of raw materials dropped in 2022.

Our net current liabilities increased significantly by 187.7% from RMB81.4 million as of December 31, 2020 to RMB234.2 million as of December 31, 2021, primarily due to (i) an increase in trade and notes and other payables of RMB487.7 million and (ii) an increase in borrowings of RMB367.1 million, partially offset by (iii) an increase in inventories of RMB179.6 million and (iv) an increase in financial assets at FVTPL of RMB364.5 million.

Working Capital Statement

Taking into account the estimated net proceeds from the [**REDACTED**] and the financial resources presently available to us, including our cash and cash equivalents, cash flows from operating activities and our available bank loans and banking facilities, our Directors are of the opinion, and the Sole Sponsor concurs, that we have sufficient funds to meet our working capital requirements for at least the next 12 months from the date of this document.

Our Directors confirm that there were no material defaults in payment of trade and non-trade payables and borrowings, and/or breaches of financial covenants during the Track Record Period and up to the date of this document.

SELECTED KEY BALANCE SHEET ITEMS

Inventories

Our inventories primarily consist of raw materials, work in progress, finished goods and goods in transit. The following table sets forth our inventories as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	51,945	100,482	97,582
Work in progress	10,410	28,531	50,927
Finished goods	145,880	257,604	295,046
Goods in transit	254	1,454	2,117
Total	**208,489**	**388,071**	**445,672**

Our inventories increased by 86.1% from RMB208.5 million as of December 31, 2020 to RMB388.1 million as of December 31, 2021, primarily because (i) we stocked up our raw materials and finished goods in advance in anticipation of a rise in the price of batteries in the next year, and (ii) our Guangxi Plant commenced operation and enhanced our production capabilities. Our inventories further increased by 14.8% to RMB445.7 million as of December 31, 2022, primarily in line with our business expansion.

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

	For the year ended December 31,		
	2020	**2021**	**2022**
Inventory turnover days	30.0	35.9	36.0

Note: Inventory turnover days are calculated by the average of the beginning and ending balance of inventories for the year divided by cost of sales for the year and multiplied by 365.

The increase in our inventory turnover days in 2021 was primarily because we stocked up our raw materials and finished goods in advance to mitigate the impact of the COVID-19 pandemic on our production, resulting in a rise in the ending balances of inventories. Our inventory turnover days remained relatively stable in 2021 and 2022.

The table below sets forth an ageing analysis for our inventories:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Less than 1 year	202,022	384,722	439,430
Between 1 and 2 years	5,010	2,034	5,094
Between 2 and 3 years	1,457	418	383
Over 3 years	–	897	765
Total	**208,489**	**388,071**	**445,672**

As of April 30, 2023 , RMB399.0 million, or 89.5%, of our inventories as of December 31, 2022 had been used, consumed or sold subsequently. According to our inventory management policy, we periodically assess the value of our inventories to determine whether to recognize provisions for impairment. The Directors believe that there is no material recoverability issue for inventories and no provision for inventories has been made for the years ended December 31, 2020, 2021 and 2022.

Trade and Notes and Lease Receivables

Our trade and notes and lease receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Our sales to most of our distributors were made on a payment-before-delivery basis. On a case-by-case basis, we provided credit limits instead of credit terms to certain creditworthy distributors, distributors with whom we have long-term relationships or distributors with a relatively larger scale. The credit limit is primarily determined based on the relevant distributor's performance in the previous year, estimated sales and business plan in the coming year, and credit worthiness. Upon granting credit limits, in addition to determining the amounts, the Group will determine the terms of the credit limits which are typically within one month, one year, or in extremely rare circumstances, five years, depending on the specific arrangement. The credit limits are revolving during their respective terms and distributors are required to settle all outstanding amounts upon expiration of the terms. According to Frost & Sullivan, it is not uncommon in the electric two-wheeled vehicle industry in mainland China for companies to grant credit terms and credit limits to their distributors. At the end of each year, outstanding balances are recorded as receivables. The following table sets forth a breakdown of our trade and notes and lease receivables as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	143,040	149,013	189,664
Less: Provision for impairment of receivables	(30,426)	(22,162)	(22,212)
	112,614	126,851	167,452
Notes receivables	25,358	31,088	118,850
Less: Provision for impairment of receivables	(43)	(69)	(436)
	25,315	31,019	118,414
Total	**137,929**	**157,870**	**285,866**

Our trade and notes receivables increased by 14.5% from RMB137.9 million as of December 31, 2020 to RMB157.9 million as of December 31, 2021, and further increased by 81.1% to RMB285.9 million as of December 31, 2022, primarily due to (i) our business growth and (ii) the increasing use of acceptance bills due within six months by our distributors, leading to the increase in notes receivables.

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Lease receivables[Note]			
Finance lease receivables – current	–	–	9,178
Finance lease receivables – non current	–	–	10,239
Less: Provision for impairment of receivables	–	–	(498)
	–	**–**	**18,919**

Note: In view of the booming shared mobility markets, we have been seeking opportunities to cooperate with suitable shared mobility companies to expand our source of revenue and enhance our brand awareness. To this end, we entered into lease agreements with Jinhua Hongzi Investment Holding Co., Ltd. ("**Jinhua Hongzi**"), pursuant to which we leased our electric bicycles to Jinhua Hongzi for carrying out electric bicycle sharing business at a rate of RMB100 per unit per month for a period of two years. Jinhua Hongzi paid us on a quarterly basis and will take ownership of the leased electric bicycles upon the expiration of the lease. Jinhua Hongzi is a local shared mobility service provider with rich operation experience on college campuses and in cities. Jinhua Hongzi is wholly owned by a former employee of the Company and is an Independent Third Party. During the year ended December 31, 2022, revenue contribution from the lease arrangement with Jinhua Hongzi amounted to RMB16.3 million. We will continue this business arrangement after the Listing but will keep the business on a relatively small scale compared with our main business, the sales of electric vehicles. We have no intention to seek for any new cooperative partners in the shared mobility industry at the current stage. We believe this business will not bring about material changes in our cost structure and risk profile on the ground that (i) Jinhua Hongzi maintained good business relationship with us and had good credit records; (ii) we may take a variety of measures to control our risks under the lease arrangement, including requesting for the access to the operating data of Jinhua Hongzi, reviewing its bank statements and requesting late fees or withhold the leased electric bicycles in the case of late payment; and (iii) as of December 31, 2022, we had properly made sufficient impairment provisions of RMB0.5 million for the lease receivables due from Jinhua Hongzi. See note 23(b) to the Accountant's Report included in Appendix I to this document for further details.

The table below sets forth a breakdown of our trade and notes receivables by customer type:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Domestic distributors	120,648	154,256	261,532
E-commerce platforms	1,112	4,985	7,668
Corporate and institutional customers	42,482	19,040	30,748
Overseas distributors	4,156	1,820	8,566
Total	**168,398**	**180,101**	**308,514**

The ageing analysis of our trade receivables, based on the revenue recognition date is as follows:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Less than 1 year	101,919	118,530	167,566
Between 1 and 2 years	18,019	12,026	4,212
Between 2 and 3 years	9,442	7,160	2,558
Over 3 years	13,660	11,297	15,328
Total	**143,040**	**149,013**	**189,664**

The table below sets forth an ageing analysis for our trade receivables attributable to our domestic and overseas distributors:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Less than 1 year	64,102	100,133	134,702
Between 1 and 2 years	18,019	12,023	4,200
Between 2 and 3 years	3,664	7,160	2,558
Over 3 years	13,660	5,672	9,788
Total	**99,446**	**124,988**	**151,247**

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

	For the year ended December 31,		
	2020	**2021**	**2022**
Trade and notes receivable turnover days	21.7	15.8	16.9

Note: Trade and notes receivable turnover days are calculated by the average of the beginning and ending balance of trade and notes receivables for the year divided by total revenue for the year and multiplied by 365.

The decrease in our trade and notes receivable turnover days from 21.7 days in 2020 to 15.8 days in 2021 was mainly due to our credit management efforts, such as the adoption of a more prudent approach in granting credit limits to our distributors. Our trade and notes receivable turnover days then increased to 16.9 days in 2022 primarily because we developed new corporate and institutional customers in 2022 and received payments by installments from them.

As of April 30, 2023, RMB217.9 million, or 70.6%, of our trade and notes receivables as of December 31, 2022 had been settled subsequently. The Directors believe that there is no material recoverability issue for our trade receivables and sufficient provision for impairment of trade receivables has been made, given that:

(i) the Directors believe the credit risk of the Group is immaterial on the bases that: (a) during the Track Record Period, we typically granted credit limits to and accepted payment by notes from a few distributors with good financial condition and credit record, and granted credit terms to some of our corporate and constitutional clients; (b) our trade receivables at the end of each year during the Track Record Period were relatively small as compared to revenue generated in the year; and (c) we had relatively high turnover rate for trade receivables as the turnover days of the Group's trade and notes receivables amounted to 21.7 days, 15.8 days and 16.9 days for the year ended December 31, 2020, 2021 and 2022, respectively;

(ii) we adopted comprehensive internal control policies and measures to minimize potential credit risks. For example, we have established an internal credit evaluation system to assess the potential customer's credit quality and defines credit limits by customer before accepting any new customer. According to our credit management policy, the maximum amount of credit limit approved shall not exceed RMB200 million in aggregate at all times (which is relatively small as compared with our total revenue during each year of the Track Record Period). Our management has delegated a particular team responsible for the determination and regular review of credit limits and credit approvals attributed to customers. In addition, we have been exerting efforts in collecting overdue receivables. Our finance team closely monitors our outstanding trade receivables, maintains trade receivables management account and ageing analysis table and review regularly the credit records of our customers. We may take follow-up actions such as active communications with our customers through various channels, payment reminders or legal actions as appropriated to collect overdue trade receivables; and

(iii) during the Track Record Period, we had performed impairment assessment on trade receivables balances under the expected credit loss model. We recognized provision for impairment of trade receivables of RMB30.4 million, RMB22.2 million and RMB22.2 million as of December 31, 2020, 2021 and 2022, respectively. The provision for impairment of trade receivables was calculated by multiplying trade receivables balances by the expected credit loss rates. Different expected credit loss rate was applied to the balance of each age-band for our trade receivables. In particular, the expected credit loss rate applied to our trade receivables aged over three years, which accounted for 8.1% of our total trade receivables as of December 31, 2022, was 100%. The expected credit loss rates were based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflected the probability-weighted outcome and reasonable and supportable information that was available at the end of the reporting period about past events, current conditions and forecasts of future economic conditions. For further details on the credit risk exposure on our trade receivables, see note 3.1.2(a) to the Accountant's Report included in Appendix I to this document.

Based on the foregoing, the Sole Sponsor concurred with the Directors that they were not aware of any material recoverability issue for the Group's trade receivables and sufficient provision for impairment of trade receivables had been made.

Other Receivables and Prepayments

The following table sets forth the breakdown of our other receivables and prepayments as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Non-current			
Prepayments for construction and equipment	11,874	37,146	29,459
Loans to third parties	11,260	–	–
Deposits	1,165	1,196	1,496
Payment of decoration costs	411	54,218	85,113
Less: Provision for impairment of other receivables	(238)	(28)	(40)
	24,472	92,532	116,028
Current			
Prepayments for raw materials	6,769	164,132	25,384
Prepaid expenses	5,997	8,686	11,567
Prepaid taxes and surcharges and input VAT to be deducted	3,371	19,371	10,865
Receivables from disposal of a subsidiary	48,000	–	–
Receivables from disposal of land use right[1]	20,000	20,000	20,000
Loans to a related party[2]	95,620	58,500	11,000
Loans to third parties	18,931	41,062	5,648
Deposits	1,061	1,108	1,360
Payment of decoration costs	176	33,181	70,162
Prepayments for [**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Others	9,296	8,690	9,097
Less: Provision for impairment of other receivables	(37,806)	(38,709)	(38,196)
	171,415	316,075	132,632
Total other receivables and prepayments	**195,887**	**408,607**	**248,660**

Notes:

1. In May 2016, we transferred the land use rights of two parcels of land located in the development zone of Yinan County to Yinan County Urban State owned Assets Operation Co., Ltd., a state-owned enterprise supported by local government finance, at a consideration of RMB80 million. RMB60 million had been paid in prior years and RMB20 million remained unsettled due to tight finances of the local government. The Group has made full provision for the balances prior to the Track Record Period.

2. The balances due from a related party represented the loan to Linyi Luyuan Real Estate Co., Ltd. ("**Linyi Luyuan**") in 2019, which were secured by apartments and shops owned by Linyi Luyuan with an effective annual interest rate of 6%. The original maturity period was one year and extended by one year until December 31, 2021. As Linyi Luyuan has defaulted on the loan, we have initiated legal proceedings against it for the total outstanding amount of RMB15.0 million. On March 10, 2023, Linyi Luyuan and us reached an agreement, pursuant to which, Linyi Luyuan agreed to settle the amounts due to us with the pledged assets before May 1, 2023 and we agreed to waive any interests due from Linyi Luyuan. As a result, the balance of loans to a related party as of December 31, 2022 of RMB11.0 million had been fully settled as of the Latest Practicable Date. In addition, since 2020, the Group has ceased granting loans to any other related party and has no intention to provide any loan to any related party in the future. We recorded loss allowance of RMB1.8 million, RMB3.1 million and RMB4.7 million for such loan as of December 31, 2020, 2021 and 2022, respectively. Based on similar reasons described under " – loans to third parties" below, our Directors are of the view, and our PRC Legal Advisors concur, that our loans to a related party does not constitute a material non-compliance of any applicable laws or regulations.

Our other receivables and prepayments increased significantly by 108.6% from RMB195.9 million as of December 31, 2020 to RMB408.6 million as of December 31, 2021, primarily due to (i) an increase in prepayments for raw materials of RMB157.4 million as a result of purchases of lithium-ion batteries in advance in 2021 as the price of certain key raw material of lithium-ion batteries, i.e. battery grade Li_2CO_3, experienced a significant increase from RMB114.9 thousand per ton in the third quarter of 2021 to RMB208.0 thousand per ton in the fourth quarter of 2021 and the management anticipated future price rises, and (ii) an increase in payment of decoration costs of RMB86.8 million, partially offset by (iii) a decrease in receivables from disposal of a subsidiary, namely Jiangsu Luyuan Motorcycle Technology Co., Ltd., of RMB43.9 million as the purchaser paid the same amount to the Group in 2021 and (iv) a decrease in loans to a related party, namely Linyi Luyuan Real Estate Co., Ltd., of RMB37.1 million as a result of repayment of such borrowings. Our other receivables and prepayments decreased by 39.1% from RMB408.6 million as of December 31, 2021 to RMB248.7 million as of December 31, 2022, primarily due to (i) a decrease in prepayments for raw materials of RMB138.7 million because we received lithium-ion batteries purchased in 2021 and did not stock up on lithium-ion batteries that much as Li_2CO_3 prices had been returning to normal at a rapid pace since the fourth quarter of 2022, partially offset by (ii) an increase in payment of decoration costs of RMB67.9 million as a result of the increase in the point of sales of distributors to further expand our sales channels, see "– Payment of decoration costs" in this section for details.

The ageing analysis of our material other receivables and prepayments, including prepayments for raw materials, payment of decoration costs and loans to third parties, is as follows:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments for construction and equipment			
– Less than 1 year	9,468	36,485	28,665
– Between 1 and 2 years	2,406	661	794
– Between 2 and 3 years	–	–	–
– Over 3 years	–	–	–
	11,874	37,146	29,459

Note: No provision of impairment was made for prepayments. As of April 30, 2023, RMB20.0 million, or 68.0%, of our prepayments for construction and equipment had been subsequently settled.

Prepayments for raw materials			
– Less than 1 year	6,418	163,899	24,930
– Between 1 and 2 years	110	2	213
– Between 2 and 3 years	154	87	160
– Over 3 years	87	144	81
	6,769	164,132	25,384

Note: No provision of impairment was made for prepayments. As of April 30, 2023, RMB17.7 million, or 69.7%, of our prepayments for raw materials had been subsequently settled.

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Payment of decoration costs			
– Less than 1 year	587	87,008	104,412
– Between 1 and 2 years	–	391	50,649
– Between 2 and 3 years	–	–	214
– Over 3 years	–	–	–
	587	87,399	155,275

Note: No provision of impairment was made for prepayments. As of April 30, 2023, RMB23.4 million, or 15.1%, of our non-current and current payment of decoration costs had been subsequently deducted from revenue.

	As of December 31,		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Loans to third parties			
– Less than 1 year	14,900	25,251	–
– Between 1 and 2 years	5,760	5,500	358
– Between 2 and 3 years	5,300	5,011	–
– Over 3 years	4,231	5,300	5,290
	30,191	41,062	5,648
Provision for impairment of loans to third parties	(6,059)	(7,764)	(5,648)
Loans to third parties, net	24,132	33,298	–

Note: As of April 30, 2023, none of our loans to third parties as of December 31, 2022 had been subsequently settled.

Payment of decoration costs

During the Track Record Period, in order to ensure consistency of the style and brand presentation at their retail outlets, we directly managed the decoration and refurbishment of distributor retail outlets by communicating with the decoration companies and purchasing necessary decorative supplies and materials. We bore decoration costs of the relevant retail outlets in full and paid directly to the decoration companies on behalf of the relevant distributors from accounting perspective. In exchange, the relevant distributors entered into agreements with us generally with terms of three to five years, under which they might commit, among other things, to meet our requirements on minimum sales to end customers, maintain the appearance, layout and brand presentation at their retail outlets by keeping our decorations in place and keep their retail outlets exclusive to our products. Under the agreements, we are entitled to claim compensation in the case of breach of such commitments by the relevant distributors.

The payment of decoration costs is in general initially capitalized as prepaid expenses, and subsequently amortized and deducted from revenue over the applicable periods. For details of the accounting treatment of decoration costs, see note 2.18 to the Accountant's Report included in Appendix I to this document.

For the year ended December 31, 2020, 2021 and 2022, decoration costs we bore amounted to RMB55.4 million, RMB123.7 million and RMB132.0 million involving 381, 720 and 722 offline distributors, respectively. The increase in both the amount of decoration costs and number of distributors involved was mainly attributable to our expanding distribution network and enhanced offline branding. Revenue contribution from these distributors amounted to RMB991.5 million, RMB2,409.2 million and RMB3,146.9 million for the year ended December 31, 2020, 2021 and 2022, respectively.

Save as disclosed in the section headed "Business – Sales and Distribution – Offline Channels – Credit Policies and Financial Assistance to Distributors" and other than in the capacity as our distributors, to our best knowledge, there is no other past or present relationship between the Group and each of these distributors, their respective substantial shareholders, directors or senior management, or any of their respective associates.

Loans to third parties

During the Track Record Period, our loans to third parties primarily consisted of loans to distributors, sub-distributors, suppliers and employees. The following table sets forth the movement of our current and non-current loans to third parties during the Track Record Period:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Loans to distributors and sub-distributors[1]			
Balance at the beginning of the year	**13,957**	**15,800**	**28,406**
Increase during the year	5,289	16,355	–
Decrease (repayment) during the year	(3,446)	(3,749)	(22,758)
Balance at the end of the year	**15,800**	**28,406**	**5,648**
Loans to suppliers[2]			
Balance at the beginning of the year	**7,505**	**13,160**	**4,500**
Increase during the year	10,939	7,821	–
Decrease (repayment) during the year	(5,284)	(16,481)	(4,500)
Balance at the end of the year	**13,160**	**4,500**	**–**
Loans to employees[3]			
Balance at the beginning of the year	**1,681**	**1,231**	**8,156**
Increase during the year	–	9,044	–
Decrease (repayment) during the year	(450)	(2,119)	(8,156)
Balance at the end of the year	**1,231**	**8,156**	**–**

Notes:

1. We provided loans to a total of 31 distributors and sub-distributors primarily to support their lease payments for existing and/or newly opened retail outlets and to satisfy their short-term cash flow needs. For further details, see "Business – Sales and Distribution – Offline Channels – Credit Policies and Financial Assistance to Distributors."

2. We provided loans to five suppliers that had long-standing business relationship with us with good credit records in order to support their business development and procurement of raw materials.

3. Loans to 13 key employees were mainly used for house purchases.

We recognized loss allowance for loans to third parties of RMB6.1 million, RMB7.8 million and RMB5.6 million as of December 31, 2020, 2021 and 2022, respectively. We took measures to collect the outstanding loans due from three distributors as much as possible. See "Business – Sales and Distribution – Offline Channels – Credit Policies and Financial Assistance to Distributors" for details. Currently, the foreclosure proceedings against the third defaulting distributor has been completed and RMB2.0 million has been repaid to us. Since 2022, the Group has ceased advancing loans to third parties and has no intention to provide any loans to third parties in the future. The Directors believe that there is no material recoverability issue for our loans to third parties and sufficient provision for loans to third parties has been made.

To the best knowledge of the Company, the repayments made by the borrowers during the Track Record Period were funded by either their own working capital or borrowings from other sources. To the best knowledge of the Company having made all reasonable enquiries, there is no other past or present relationship between the Group and each of the borrowers, their respective substantial shareholders, directors or senior management, or any of their respective associates, other than that they were our distributors, sub-distributors, suppliers or employees as disclosed above.

According to the General Lending Provisions, only financial institutions may legally engage in the business of extending loans, and loans between enterprises that are not financial institutions are prohibited. The PBOC may impose a fine of one to five times of the income generated (being interests charged) from the loan advancing activities between enterprises. Notwithstanding the General Lending Provisions, the Supreme People's Court has made new interpretations concerning financing arrangements and lending transactions between non-financial institutions in the Private Lending Provisions. According to the Private Lending Provisions, the Supreme People's Court recognizes the validity of loan contracts between non-financial institutions for production and operation needs so long as certain requirements, such as interests charged and no circumstance of invalidity of contracts under the Civil Code of the PRC, are satisfied. In addition, as advised by our PRC Legal Advisors, the General Lending Provisions are not applicable to loans to third parties (such as distributors, sub-distributors or employees) that were individuals.

We confirm that the loans are primarily made for the purpose of supporting the normal business operation of the relevant distributors, sub-distributors, suppliers and the related party.We have no intention to engage in any private lending activity for the purpose of generating interest income, and our provision of loans to third parties and the related party did not involve the regulatory exceptional circumstances stipulated in the Civil Code of the PRC or relevant provisions of the Private Lending Provisions. Therefore, our PRC Legal Advisors are of the view that our provision of the loans to our distributors and sub-distributors, suppliers, and the related party during the Track Record Period are valid.

We further confirm that (i) the funds provided under the loans to third parties and the related party were self-owned funds of our Group and we have not provided loans to any unspecified persons or enterprises, and (ii) we have not been subject to any investigation, penalties or enforcement actions or received any notice from any regulatory authority in relation to our provision of loans to third parties or the related party during the Track Record Period. Considering the reasons above, our Directors are of the view, and our PRC Legal Advisors concur that, the risk of us being penalized for our loans to third parties and the related party based on the General Lending Provisions is remote, and our provision of loans to third-parties and the related party do not constitute material non-compliance of any applicable laws or regulations. Based on the foregoing together with the advice of the PRC Legal Advisors, nothing has come to the attention of the Sole Sponsor for them to disagree with the Directors' view above.

Property, Plant and Equipment

Our property and equipment consist of buildings, plant and machinery, office equipment, motor vehicles and construction in progress. Our property, plant and equipment increased by 76.9% from RMB422.7 million as of December 31, 2020 to RMB747.7 million as of December 31, 2021, and further increased by 12.9% to RMB844.1 million as of December 31, 2022, primarily due to the construction of our Guangxi Plant and the expansion of our Zhejiang Plant.

Financial Assets at Fair Value through Profit or Loss

Our financial assets at fair value through profit or loss mainly comprise certificate of deposits and structured deposits and other wealth management products purchased from reputable commercial banks. As of December 31, 2020, 2021 and 2022, our financial assets at fair value through profit or loss amounted to RMB63.6 million, RMB428.0 million and RMB533.6 million, respectively. The following table sets forth the breakdown of our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Certificate of deposits	–	337,925	470,045
Wealth management products and structured deposits	63,564	90,102	63,520
Total	**63,564**	**428,027**	**533,565**

We regularly invested in certificate of deposits and, to a lesser extent, purchased short-term wealth management products and structured deposits during the Track Record Period to improve the return on idle cash and bank balances. The certificate of deposits we invested in were principal protected with fixed interests, and generally had a term of three years. The wealth management products and structured deposits we purchased were generally of short-term and low-risk nature and were issued by reputable PRC commercial banks. The return on our wealth management products and structured deposits depended on the performance of their respective underlying financial assets. The rate of return of our investments in certificate of deposits, wealth management products and structured deposits ranged from 1.45% to 4.83% in general. We have implemented a series of internal control policies on investments to ensure corporate fund safety and improve fund utilization efficiency. We adopt a prudent approach in selecting financial products. According to our internal policies, risk-free deposits are our preferred investment targets and we are also allowed to invest in low-risk financial products issued by reputable commercial banks in mainland China. We may only purchase financial products when we have sufficient cash to satisfy our short-term working capital needs. Our finance team will regularly review our working capital conditions, capital structure and existing investments, plan for capital expenditures and forecast future cash flows to evaluate our cash needs. Our investment decisions are made on a case-by-case basis after due and careful consideration of a number of factors, including without limitation risk profile of the financial products, macro-economic environment, general market conditions, credit of issuing banks, and the maturities and expected rates of return of the financial products. Investments in certificate of deposits and structured deposits shall be approved by our chief financial officer and purchases of wealth management products shall be approved by the vice president responsible for finance and risk control. To control our risk exposure, we oversee the performance of the financial products we purchased and timely measures will be taken to manage our investments. Our finance team report to our fund management committee on a monthly basis regarding our investments. Our investment in these financial assets after Listing will be subject to compliance with Chapter 14 of the Listing Rules.

In relation to the valuation of financial assets at FVTPL categorized within level 3 of fair value measurement, with reference to the "Guidance note on directors' duties in the context of valuations in corporate transactions" issued by the SFC, our Directors have adopted the following procedures: (i) reviewing the terms of the relevant agreements and documents regarding the financial assets; (ii) discussing with the Reporting Accountants on the basis of the valuation and obtaining sufficient understanding of the valuation model, methodologies and techniques, (iii) considering all information especially those non-market related information input which required management assessment and estimates, such as expected rate of return and discount rate; and (iv) reviewing the valuation works and results and the financial statements prepared in accordance with HKFRS. Based on the above procedures, our Directors are of the view that the valuation of financial assets at FVTPL categorized within level 3 of fair value measurement performed during the Track Record Period is fair and reasonable, and our financial statements are properly prepared. In addition, our Directors are satisfied with the valuation work of financial assets at FVTPL categorized within level 3 of fair value measurement performed during the Track Record Period.

The Reporting Accountant has carried out necessary audit procedures related to the financial assets at fair value through profit or loss categorized within level 3 of fair value measurement, in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on pages I-1 to I-3 of Appendix I to the Document.

The Sole Sponsor has conducted the following due diligence work in relation to the valuation of the Company's financial assets, including (i) discussed with the Group's management to understand the details of the major types and rate of return of the Group's financial assets at FVTPL categorized within level 3 of fair value measurement, the methodologies and consideration factors for valuation of such financial assets, as well as the adoption and implementation of the internal control measures relating to the valuation of such financial assets; (ii) obtained and reviewed the full list and sample agreements of the Group's financial assets at FVTPL categorized within level 3 of fair value measurement; (iii) reviewed the relevant internal control policies and procedures, and discussed with the Internal Control Consultant in relation to the Group's policies on investment and management of financial assets at FVTPL; (iv) reviewed the relevant notes in the Accountant's Report set out in Appendix I to this document; and (v) discussed with the Reporting Accountant to understand the auditing work and procedures they have performed in respect of the Group's valuation of financial assets at FVTPL categorized within level 3 of fair value measurement.

Having considered the work done by the Directors and the Reporting Accountant and the due diligence work performed by the Sole Sponsor as stated above, nothing has come to the attention of the Sole Sponsor that would cause them to disagree with the valuation of financial assets at FVTPL categorized within level 3 of fair value measurement.

Debt Instruments at Fair Value through Other Comprehensive Income

Our debt instruments at FVOCI primarily consist of bank acceptance bills from corporate and institutional clients as sales to corporate and institutional clients typically had a longer payment collection period. Our debt instruments at FVOCI amounted to RMB175.8 million, RMB119.0 million and RMB95.2 million as of December 31, 2020, 2021 and 2022, respectively. The decrease in our debt instrument at FVOCI in 2021 was primarily due to the decreased revenue contribution from corporate and institutional clients because we adjusted our sales and marketing strategy in 2021 and strove to expand our offline distributor network to promote the sales of our self-developed products.

Trade and Notes and Other Payables

Our trade and other payables represent liabilities for goods and services provided to us which are unpaid, including without limitation trade payables, notes payable, other tax payables, payable for land and equipment which increased significantly in 2021 due to the construction of our Guangxi Plant and the expansion of our Zhejiang Plant, deposits, accrued expenses, loans from and interest payable to a related party, accrued payroll and unfulfilled government grants. Our trade and other payables are unsecured and are usually paid within 180 days of recognition. The following table sets forth the breakdown of our trade and notes and other payables as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	305,712	538,458	588,356
Notes payable	387,019	524,194	907,478
Subtotal	692,731	1,062,652	1,495,834
Other tax payables	24,660	19,595	37,756
Payable for land and equipment	15,729	117,090	43,460
Deposits	30,523	19,988	8,339
Accrued expenses	19,346	34,462	40,845
Loans from and interest payable to a related party	–	3,282	–
Accrued payroll	34,176	47,299	61,426
Unfulfilled government grants[Note]	–	–	14,214
Others	1,778	2,233	2,772
Total	**818,943**	**1,306,601**	**1,704,646**

Note: Guangxi Luyuan received the government grant of RMB14.2 million in 2020 from the government of Guigang City, Guangxi province, the PRC for the land and plant invested by the Group. In December 2022, the government modified the preconditions of this government grant pursuant to which the government grant subjected to approval from the government upon receiving application from the Group. By the end of 2022, the Group had not yet submitted the application to the government and had not received reply from the government, thus the preconditions had not been met. As a result, the Group reclassified the cash received of RMB14.2 million for this government grant to other payables.

The ageing analysis of trade payables based on invoice date as of December 31, 2020, 2021 and 2022 are as follows:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Less than 1 year	260,057	520,996	577,359
Between 1 and 2 years	34,492	4,174	5,300
Between 2 and 3 years	7,892	2,150	2,541
Over 3 years	3,271	11,138	3,156
Total	**305,712**	**538,458**	**588,356**

Our trade and notes and other payables increased by 59.5% from RMB818.9 million as of December 31, 2020 to RMB1,306.6 million as of December 31, 2021, and further increased by 30.5% to RMB1,704.6 million as of December 31, 2022, primarily due to the increase in trade payables in line with our business expansion and the increase in notes payable attributable to the increasing use of bank acceptance bills that were generally due within six months.

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

	For the year ended December 31,		
	2020	**2021**	**2022**
Trade and notes payable turnover days	121.5	105.7	110.6

Note: Trade and notes payable turnover days are calculated by the average of the beginning and ending balance of trade and notes payables for the year divided by cost of sales for the year and multiplied by 365.

The decrease in our trade and notes payable turnover days in 2021 was mainly because we accelerated payments to suppliers in view of the increase in prices of batteries in 2021. The increase in our trade and notes payable turnover days in 2022 was primarily because our suppliers no longer requested payments in advance that much compared with 2021 as the prices of raw materials dropped in the year.

As of April 30, 2023, RMB519.7 million, or 88.3%, of our trade payables as of December 31, 2022 had been settled subsequently. As of April 30, 2023, RMB562.1 million, or 61.9%, of our notes payable as of December 31, 2022 had been settled subsequently.

Contract Liabilities

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Advance from distributors for sales of electric vehicles	57,132	82,888	96,384

Our contract liabilities come from the advance from distributors for sales of electric vehicles. Our contract liabilities increased by 45.1% from RMB57.1 million as of December 31, 2020 to RMB82.9 million as of December 31, 2021, and further increased by 16.3% to RMB96.4 million as of December 31, 2022, primarily due to our business expansion.

As of April 30, 2023, RMB85.0 million, or 88.1%, of our contract liabilities as of December 31, 2022 had been recognized as revenue subsequently.

INDEBTEDNESS

Borrowings

The following table sets forth our borrowings as of the dates indicated:

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Borrowings included in non-current liabilities:				
– Bank loans-secured	–	188,000	375,424	425,442
– Bank loans-unsecured	–	–	50,000	74,400
Less: Current portion of long-term borrowings				
– Bank loans-secured	–	(45,000)	(55,700)	(5,400)
– Bank loans-unsecured	–	–	–	(1,200)
Total non-current borrowings	**–**	**143,000**	**369,724**	**493,242**

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Borrowings included in current liabilities:				
– Bank loans-secured	20,024	40,451	3,132	10,237
– Bank loans-unsecured	85,888	207,000	104,000	84,000
– Other borrowings	30,000	200,600	124,030	350,000
– Other financial institution borrowings-secured	20,000	30,000	–	–
Add: Current portion of long-term borrowings				
– Banks loans-secured	–	45,000	55,700	5,400
– Bank loans-unsecured	–	–	–	1,200
Total current borrowings	**155,912**	**523,051**	**286,862**	**450,837**
Total borrowings	**155,912**	**666,051**	**656,586**	**944,079**

Our borrowings increased significantly by 327.2% from RMB155.9 million as of December 31, 2020 to RMB666.1 million as of December 31, 2021 to satisfy our financial needs for the construction of our Guangxi Plant and the expansion of our Zhejiang Plant. Our borrowings remained relatively stable at RMB656.6 million as of December 31, 2022. Our borrowings further increased by 43.8% to RMB944.1 million as of April 30, 2023 primarily due to the increases in both non-current bank loans and other borrowings. We obtained medium or long-term bank loans to replace our short-term bank loans to improve our liquidity. The increase in other borrowings, which represented the borrowings from discount of bank notes, was to supplement our working capital.

Certain of our bank loans and other borrowings during the Track Record Period were secured by mortgages over our property, plant and equipment, right-of-use assets, the Group's equity interest in Guangxi Luyuan and trade receivables of a subsidiary of the Group, see note 14 and 15 to the Accountant's Report included in Appendix I to this document for details.

Our borrowings are denominated in RMB. As of December 31, 2020, 2021 and 2022, the weighted average effective interest rates of our bank borrowings were 4.28%, 3.95% and 3.55%, respectively.

The balances of other borrowings represented the borrowings from discount of our bank notes.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants pursuant to the applicable loan agreements we entered into with the banks. We are not subject to other material financial covenants under any agreements with respect to any bank loans or other borrowings. There was no delay or default in the repayment of borrowings during the Track Record Period. Taking our financial position into consideration, we are able to abide by these covenants amid current market conditions and that our capital raising abilities were not materially affected as of April 30, 2023.

As of April 30, 2023, our Group had banking facilities of RMB1,595.0 million for bank loans, bank acceptance bills and letter of credit, of which RMB953.6 million had been utilized.

Lease Liabilities

The following table sets forth a summary of our lease liabilities as of the dates indicated:

	As of December 31,			**As of April 30,**
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current	3,299	2,140	2,798	1,559
Non-current	1,085	448	2,310	1,643
Total	**4,384**	**2,588**	**5,108**	**3,202**

During the Track Record Period, we entered into leases with third parties primarily for our warehouse. Our lease liabilities amounted to RMB4.4 million, RMB2.6 million, RMB5.1 million and RMB3.2 million as of December 31, 2020, 2021 and 2022 and April 30, 2023, respectively. The decrease in our lease liabilities in 2021 and the four months ended April 30, 2023 was primarily due to our rent payments. The increase in our lease liabilities in 2022 was primarily due to an increase in our leased property because we leased more space in our warehouse in Shanghai.

Contingent Liabilities

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group that is likely to have a material and adverse effect on our business, financial condition or results of operations.

No Other Outstanding Indebtedness

Save as disclosed in this document, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection therewith as of April 30, 2023, being our indebtedness statement date. Our Directors confirm that, as of the Latest Practicable Date, there was no material change in the Company's indebtedness since April 30, 2023.

RELATED PARTY TRANSACTION

We enter into transactions with our related parties from time to time. For details, see note 37 to the Accountant's Report included in Appendix I to this document. During the Track Record Period, substantially all of our balances with related parties were trade in nature. The balances with related parties that were non-trade in nature had been settled as of the Latest Practicable Date. Our Directors believe that these transactions were conducted in the ordinary and usual course of business, and did not distort our results of operations or make our historical results unreflective of our future performance.

CAPITAL COMMITMENTS AND CAPITAL EXPENDITURES

Capital Expenditures

Our capital expenditures amounted to RMB85.9 million, RMB346.1 million and RMB233.7 million for the years ended December 31, 2020, 2021 and 2022 respectively. Our capital expenditures are primarily used for the expansion of our production capacities, including the construction of additional production facilities and the upgrading of our existing machinery and equipment, such as the construction of our Guangxi Plant in 2021 and 2022 and the expansion of our Zhejiang Plant in 2022.

For the year ending December 31, 2023, our capital expenditures are estimated to be RMB272.6 million. We plan to finance such capital expenditures through cash generated from our operations, bank loans and the net proceeds from the [**REDACTED**]. Our actual capital expenditures may differ from the amounts set forth above due to various factors, including our future cash flows, results of operations and financial condition.

Capital Commitments

The following table sets forth our capital expenditures contracted but not yet incurred as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for	10,963	62,918	26,380

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as of the dates or for the years indicated:

	For the year ended/As of December 31,		
	2020	**2021**	**2022**
Return on equity[1] (%)	8.3%	11.2%	19.0%
Return on assets[2] (%)	2.6%	2.8%	4.0%
Current ratio[3] (times)	0.92	0.88	0.99
Quick ratio[4] (times)	0.72	0.68	0.78
Gearing ratio[5] (%)	32.0%	119.4%	97.3%

Notes:

1. Return on equity equals profit for the year divided by the average balance of total equity at the beginning and the end of that year and multiplied by 100%.

2. Return on assets equals profit for the year divided by the average balance of total assets at the beginning and the end of that year and multiplied by 100%.

3. Current ratio equals current assets divided by current liabilities as of the same date.

4. Quick ratio equals current assets less inventories and divided by current liabilities as of the same date.

5. Gearing ratio equals total debt, comprising borrowings and lease liabilities, divided by total equity as of the same date and multiplied by 100%.

Return on Equity

Our return on equity increased from 8.3% in 2020 to 11.2% in 2021, primarily due to the growth of our net profit. Our return on equity increased from 11.2% in 2021 to 19.0% in 2022, primarily due to the growth of our net profit in 2022.

Return on Assets

Our return on assets remained relatively stable at 2.6% and 2.8% in 2020 and 2021, respectively. Our return on assets increased from 2.8% in 2021 to 4.0% in 2022, primarily due to the growth of our net profit in 2022.

Current Ratio

Our current ratio decreased from 0.92 as of December 31, 2020 to 0.88 as of December 31, 2021, primarily due to the increase in our short-term bank loans which were included in current liabilities to (i) satisfy our financial needs for the construction of our Guangxi Plant and our intelligent factory in Zhejiang Plant and (ii) maintain a healthy level of cash due to the expanded sales to corporate and institutional clients in 2020, which usually had a longer payment collection period than sales to other kind of customers. Our current ratio increased from 0.88 as of December 31, 2021 to 0.99 as of December 31, 2022, primarily due to the increase in our cash and cash equivalents attributable to our cash flows generated from operating activities.

Quick Ratio

Our quick ratio decreased from 0.72 as of December 31, 2020 to 0.68 as of December 31, 2021, primarily due to the increase in our short-term bank loans which were included in current liabilities. Our quick ratio increased from 0.68 as of December 31, 2021 to 0.78 as of December 31, 2022, primarily due to the increase in our cash and cash equivalents attributable to our cash flows generated from operating activities.

Gearing Ratio

Our gearing ratio increased significantly from 32.0% as of December 31, 2020 to 119.4% as of December 31, 2021, primarily due to the increase in our borrowings for the construction of our Guangxi Plant and our intelligent factory in Zhejiang Plant. Our gearing ratio decreased from 119.4% as of December 31, 2021 to 97.3% as of December 31, 2022, primarily due to an increase in retained earnings.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks including foreign exchange, interest rate, price, credit and liquidity risks in the normal course of our business. For details of the risks we are exposed to, see note 3.1 to the Accountant's Report included in Appendix I to this document.

DIVIDEND POLICY

Under the Articles of Association, our Company in general meeting may declare dividends in any currency to be paid to our Shareholders, provided that no dividend shall exceed the amount recommended by our Directors. In addition, our Directors may from time to time pay to our Shareholders such interim dividends as appear to our Directors to be justified by the profits of our Company. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Our Company is a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC Law requires that dividends be paid only out of the profit for the year calculated according to accounting principles in mainland China. PRC Law also requires a foreign-invested enterprise to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends.

No dividends have been paid or declared by our Company during the Track Record Period. Currently, we do not have any fixed dividend policy.

[**REDACTED**] EXPENSES

[**REDACTED**] expenses to be borne by us are estimated to be approximately HK$[**REDACTED**] or [**REDACTED**]% of the gross proceeds of the [**REDACTED**] (including [**REDACTED**] commission of approximately HK$[**REDACTED**], and non-[**REDACTED**] related expenses of approximately HK$[**REDACTED**] which consist of fees and expenses of legal advisors and the Reporting Accountant of approximately HK$[**REDACTED**] and other fees and expenses of approximately HK$[**REDACTED**], assuming an [**REDACTED**] of HK$[**REDACTED**] per Share, being the mid-point of the indicative [**REDACTED**]), assuming the [**REDACTED**] is not exercised. During the Track Record Period, we incurred [**REDACTED**] expenses of RMB[**REDACTED**], of which RMB[**REDACTED**] and RMB[**REDACTED**] were recognized in the consolidated income statements and consolidated statements of comprehensive income for the year ended December 31, 2021 and 2022, respectively, and RMB[**REDACTED**] and RMB[**REDACTED**] was recognized as prepayments in the consolidated balance sheets as of December 31, 2021 and 2022, respectively, which will be accounted for as a deduction from equity upon Listing. Subsequent to the Track Record Period, we expect to further incur [**REDACTED**] expenses of RMB[**REDACTED**] prior to and upon completion of the [**REDACTED**], of which (i) RMB[**REDACTED**] is expected to be recognized as expenses in our consolidated income statements and consolidated statements of comprehensive income, and (ii) RMB[**REDACTED**] is expected to be accounted for as a deduction from equity upon Listing under the relevant accounting standard.

DISTRIBUTABLE RESERVES

As of December 31, 2022, the Company had distributable reserves of RMB22.8 million.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

During the Track Record Period, we did not have any material off-balance sheet arrangements or any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support for us. As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

For details of our unaudited pro forma adjusted consolidated net tangible assets, please refer to the section headed "Unaudited Pro Forma Financial Information" as set out in Appendix II to this document.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, as of the date of this document, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since December 31, 2022, being the end of the Track Record Period, and there is no event since December 31, 2022 which would materially affect the information shown in the Accountant's Report, the contents of which are set out in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had they 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.