You should read this section in conjunction with our consolidated financial information as set out in Appendix I to this document. The consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in "Risk Factors".

OVERVIEW

We were a gold jewellery Original Brand Manufacturer ("**OBM**") in the PRC and were one of the very few with an operation that encompass the key stages of the gold jewellery industry, from raw material sourcing and purification, R&D, product design, manufacturing and retailing through our diversified sales network, as of the Latest Practicable Date, according to Frost & Sullivan. Our operation weaves together the key stages of the gold jewellery industry, from trusted raw material sourcing, through core operations including raw material purification, brand management, R&D, product design, manufacturing and bolstered by a diversified sales network, while committing to quality along the way.

We primarily sell our products through our franchise network. In addition, we also offer our products to our customers through self-operated stores and online sales via e-commerce platforms. As of June 30, 2024, we had established a comprehensive sales channels covering franchise network of 2,850 franchise stores operated by 1,670 franchisees, seven self-operated direct service centers and 17 provincial-dealers, as well as 36 self-operated stores and online stores on major e-commerce platforms. We have a well established market position in third and lower tier cities in the PRC, which are markets with rapid growth potential according to Frost & Sullivan. For further details of our sales and distribution network and arrangements with our franchisee, see "Business — Sales and Distribution Channels" of this document.

We generally adopt a cost-plus pricing policy for our gold jewellery and K-gold products. When we sell our gold products and K-gold, we normally charge customers with an amount based on the prevailing market price of gold and crafting fees, multiplied by the weight of gold of the products. Crafting fees represent mark-ups on top of the costs of our products, which vary from product to product, depending on their respective design complexity and novelty.

According to our gold price exposure management strategy, we implemented measures including procurement through gold loans and Au (T+D) contracts to mitigate the risks associated with fluctuations in gold prices. These measures are carefully assessed based on funds available, our gold inventory position and projected sales needs. Au (T+D) is a standardized contract employed by the Shanghai Gold Exchange. It involves the delivery of a predetermined amount of gold at a specified future date.

During the Track Record Period, our revenue decreased from RMB16,871.0 million for the year ended December 31, 2021 to RMB15,724.2 million for year ended December 31, 2022 and increased to RMB20,208.6 million for the year ended December 31, 2023. During the same periods, our revenue generated from the sales of gold jewellery and other gold products amounted to 97.5%, 97.9% and 98.4%, respectively. Our net profit decreased from RMB224.5 million for the year ended December 31, 2021 to RMB180.8 million for year ended December 31, 2022 and increased to RMB233.5 million for the year ended December 31, 2023. Our revenue for the six months ended June 30, 2024 amounted to RMB9,979.7 million representing an increase of RMB663.5 million or a period-on-period increase of 7.1% when compared to that for the six months ended June 30, 2023. Our net profit for the six months ended June 30, 2024 amounted to RMB52.3 million, which decreased by RMB53.7 million when compared to that of the six months ended June 30, 2023.

BASIS OF PRESENTATION

The historical financial information of the Track Record Period incorporates the financial statements of the Company and entities controlled by the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Gold supply and pricing

Our ability to source a steady supply of gold materials is crucial to our business operation. The material costs of gold for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024 constituted 99.0%, 99.2%, 99.5% and 99.6% of our material cost during the respective year/period.

We generally adopt a cost-plus pricing policy. Our jewellery products are priced based on two pricing components which are the raw material costs and crafting fees. Changes to gold material prices also affect our results of operations. Our jewellery products are mainly made of gold that are subject to changes in market prices. An increase of gold material price will directly increase our procurement cost. If there is an increase in the prevailing gold market price, we would adjust our selling gold prices based on the current market price to ensure that our customers are charged accordingly. As such, we have generally been able to pass-on gold price changes to our customers.

According to Frost & Sullivan, the continuous rise in the gold price will motivate consumers' investment enthusiasm, promoting the demand for gold jewellery products. Driven by customers' "buy on the upside" philosophy for gold, the demand for gold jewellery is likely to increase with the rising gold price. Hence, gold jewellery manufacturing companies will receive more orders from either retailers or individual customers in light of the rising trend of gold price.

According to gold price quoted on the Shanghai Gold Exchange, the annual average daily closing price for Au9995 in the PRC experienced a general upward trend which increased from RMB270.9/g in 2018 to RMB449.8/g in 2023 and further to the average daily closing price of RMB520.9/g for the six months ended June 30, 2024 due to several factors, including the volatility in the global political and economic environment, the strong demand for gold, particularly with the jewellery industry. Especially in 2020, due to the outbreak of COVID-19, the international economic environment was faced with a lot of uncertainty. Furthermore, the geopolitical conflict and the rising inflation have pushed up the demand for gold to hedge risks and the average daily closing price for Au9995 hit RMB522.9/g for the six months June 30, 2024. The trend of the average daily closing price for Au9999 was in line with Au9995 but was slightly higher, growing from RMB271.1/g in 2018 to RMB449.9/g in 2023 and further to the average daily closing price of RMB520.9/g for the six months ended June 30, 2024.

We use gold loans and Au (T+D) contracts to hedge against the financial impact of gold price fluctuations. For details, see "Business — Our procurement/suppliers — Procurement of Gold — (c) Gold price exposure management to manage fluctuations of raw material price".

The following tables demonstrate the sensitivity to a reasonably possible change in the gold price during each year/period, taking into considerations the impacts on our revenue, cost of sales and gains and losses arising from Au (T+D) and gold loan contracts, with all other variables held constant, of our profit before tax during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Gold price increase/decrease by:					
+5%	22,852	20,605	27,566	13,424	9,794
+10%	45,703	41,209	55,131	26,849	19,588
+20%	91,407	82,418	110,262	53,698	39,176
–20%	(91,407)	(82,418)	(110,262)	(53,698)	(39,176)
–10%	(45,703)	(41,209)	(55,131)	(26,849)	(19,588)
–5%	(22,852)	(20,605)	(27,566)	(13,424)	(9,794)

The following tables demonstrate the sensitivity to a reasonably possible change in the gold price as at the end of each year/period, with all other variables held constant, on our profit before tax during the Track Record Period due to changes in the settlement price of Au (T+D) contracts held and the fair values of gold loans:

	December 31,			June 30,	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Gold price increase/decrease by:					
+5%	(102,151)	(88,160)	(123,131)	(77,628)	(118,423)
+10%	(204,302)	(176,320)	(246,264)	(155,257)	(236,848)
+20%	(408,605)	(352,641)	(492,527)	(310,513)	(473,694)
–20%	408,605	352,641	492,527	310,513	473,694
–10%	204,302	176,320	246,264	155,257	236,848
–5%	102,151	88,160	123,131	77,628	118,423

Outbreak of pandemics, natural disasters and other calamities

As a gold jewellery brand with franchise stores spreading across the PRC as of June 30, 2024, our business, financial conditions and results of operations depend on operations.

According to Frost & Sullivan, during the Track Record Period, the COVID-19 pandemic negatively impacted the retail industry globally, which in turn adversely affected our business, financial conditions and results of operations. The processing volume of gold jewellery in the PRC fluctuated in the past few years. Influenced by the economic condition and the rising gold price, the processing volume of gold jewellery decreased from 749.4 tons in 2018 to 685.3 tons in 2019. In 2020, the outbreak of the pandemic caused the processing volume to slump to 510.0 tons. The processing volume rebounded in 2021 since effective control measures taken by the government which led to the swift recovery of the offline manufacturing process. The processing volume dipped again with the resurgence of the pandemic in 2022. Looking forward, as the government has eased the COVID-19 curbs since the end of 2022, the market size of the gold jewellery industry in terms of processing volume is expected to grow at a CAGR of 6.0% from 2022 to 2027 and reach 913.0 tons in 2027.

Specifically, according to Frost & Sullivan, affected by the COVID-19 pandemic, a large number of offline jewellery retail stores in the PRC suspended their business and jewellery sales stalled. As a result, the jewellery market size in the PRC witnessed a decline in 2022.

According to Frost & Sullivan, restrictive measures controlling the spread of the COVID-19 virus have generally been uplifted since December 2022, and there has been a noticeable uptick in infections among people. To the extent that future waves of COVID-19 infections disrupt normal business operations and traveling in markets which we operate, we may face disrupted market demand and operational challenges with our services. We are closely monitoring the occurrence of health pandemics, natural disasters and extraordinary events, and continuously evaluating any potential impact on our business, financial conditions and results of operations.

Economic conditions of the PRC

During the Track Record Period, we derived substantially all of our revenue from sales in the PRC. Our business is particularly sensitive to the economic developments and the purchasing power of consumers in the PRC. Economic growth in the PRC over the past three decades has led to substantial growth in personal disposable income and has resulted in increasing purchasing power and greater demand for discretionary consumer products according to Frost & Sullivan.

According to Frost & Sullivan, the PRC's economy has boomed over the past decades, and the disposable income per capita and people's living standards are increasing accordingly; Chinese residents' annual disposable income per capita has steadily risen from RMB28.2 thousand to RMB39.2 thousand over the past five years from 2018 to 2023, with a CAGR of 6.8%. For the same period, the consumption structure of Chinese people has also been constantly optimized and upgraded, with the continuous increase of total spending on luxury items, indicating that the quality of life has been steadily improving. Notably, according to Frost & Sullivan, the per capita consumption of gold jewellery in third and lower tier cities underwent rapid growth at a CAGR of 6.3% from 2018 to 2023 and reached RMB663.2 in 2023. Hence, the rising consumption power in lower-tier cities will further fuel the growth of the gold jewellery market in the PRC.

According to Frost & Sullivan, the processing volume of gold jewellery in the PRC fluctuated in the past few years. The overall gold jewellery market sales in the PRC witnessed steady growth from 2018 to 2023. Overall, the sales revenue of the PRC jewellery market increased from RMB580.0 billion in 2018 to RMB820.0 billion in 2023, representing a CAGR of 7.2%.

During the Track Record Period, our revenue decreased by RMB1,146.8 million or 6.8% from RMB16,871.0 million to RMB15,724.2 million for the year ended December 31, 2022 and increased by RMB4,484.4 million or 28.5% to RMB20,208.6 million for the year ended December 31, 2023. In addition, our revenue increased by RMB663.5 million or 7.1% from RMB9,316.2 million for the six months ended June 30, 2023 to RMB9,979.7 million for the six months ended June 30, 2024. As shown, our revenue during the Track Record Period largely followed the trend of the gold jewellery market of the PRC and was generally affected by economic conditions.

We expect that the continuing economic growth in the PRC will translate into an increase in consumer spending and demand for luxury goods. Accordingly, we expect the economic conditions and the level of consumer spending in the PRC to continue to have a significant impact on our business, financial conditions and results of operations.

Number of franchise stores and expansion of our sales and distribution network

Our revenue is derived primarily from the sales of gold jewellery products through our franchise network, which comprises franchise stores under our brand and sell our products to consumers. We also sell our products via our self-operated stores and e-commerce platforms. Our revenue is primarily driven by the scale of our franchise network and our future revenue growth depends on our ability to attract franchisees to join our sales and distribution network and open new stores and expand the coverage of our sales and distribution network. As of December 31, 2021, 2022 and 2023 and June 30, 2024, our store network included 2,680, 2,743, 2,817 and 2,850 franchise stores and 31, 32, 35 and 36 self-operated stores, respectively. While it generally takes time for the new stores to ramp up, we believe that we are able to leverage our expanding sales and distribution network to achieve economies of scale and further enhance our brand awareness.

We provide incentive support for provincial-dealers, franchisees and their stores. For example, we offer a variety of services to our franchisees such as training, guidance, branding and marketing. We also offer promotional events together with our franchisees to attract consumers. Our managers supervise and provide guidance for franchisees with respect to market development and store operating strategies. As a result, our franchisees' operating capability has been continuously improving, with some of them starting from operating a single store to operating multiple stores.

We plan to continue to grow our presence in the PRC by expanding our geographic coverage and deepening our market penetration. We expect to open more stores in new geographic regions to cover more third and lower tier cities in the PRC, offering quality high-purity gold jewellery to the general public across the PRC. For details, see "Business — Our Strategies".

Maintaining a brand image that appeals to consumers

We derive substantially all of our revenue from gold jewellery products, and we believe that the brand image of a jewellery manufacturer is an important factor affecting consumers' selection. The strength of our brand is based in part on our long history and track record consolidated with our reputation for providing trusted jewellery with distinctive product designs that appeal to a wide range of consumers. We continually develop and promote a wide range of jewellery to suit consumer preferences.

According to the Frost & Sullivan, gold jewellery is trending among millennials and Gen Z in the PRC nowadays. The proportion of the younger generation in the gold jewellery consumer group is increasing substantially in the PRC. According to the same source, an increasing number of younger consumers buy gold jewellery for self-wear instead of specific consumption scenarios such as children gifting, family gifting, couple gifting, holiday-related occasions, and wedding purchases. A significant part of our success has been and will continue to depend on our ability to maintain our strong brand image and at the same time continue to design and produce a wide range of quality jewellery products that meet continually changing consumer preferences.

Seasonality

We experience seasonal fluctuations in demand for our products. The peak seasons include the PRC National Day holiday, the period from Chinese New Year till Valentine's Day, and the period during our "One RMB Exchange" promotion which is typically in June to September. As a result, we usually record higher sales in first quarter and third quarter of each calendar year where there are holiday seasons such as Chinese New Year and the October Golden Week. As a result, comparisons of our sales and operating results between different periods within a single financial year are not necessarily meaningful and cannot be relied on as indicators of our performance. Our results of operations are likely to continue to fluctuate according to seasonality.

MATERIAL ACCOUNTING POLICY INFORMATION AND CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

We have identified certain accounting policies that are material to the preparation of our Group's financial information. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our financial information, you should consider: (i) our selection of accounting policies; and (ii) the results to changes in conditions and assumptions. We set forth below those accounting policy information that we believe are material to us or involve critical accounting judgments and key sources of estimation uncertainty used in the preparation of our Group's financial information. Our material accounting policy information, critical accounting judgments and key sources of estimation uncertainty, which are important for an understanding of our financial condition and results of operations, are set forth in detail in notes 4 and 5 to the historical financial information of the Accountants' Report set out in Appendix I to this document, respectively.

Material Accounting Policy Information

Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good and 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.

Non-cash consideration

The Group receives used gold products from franchisees, provincial-dealers and consumers to be used in manufacturing new gold products. The fair value of such non-cash consideration received from the customer is included in the transaction price and measured when the Group obtains control of the used gold products. The Group estimates the fair value of the non-cash consideration by reference to the real-time trading price of the Shanghai Gold Exchange on the relevant trading day.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined on a weighted average method. Net realizable value represents the estimated selling price for inventories less the estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress is carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related asset is functioning properly and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost of the relevant property and the related accumulated depreciation and impairment loss (if any) (including the relevant leasehold land classified as right-of-use assets) are transferred to investment property at the date of transfer.

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Group recognizes all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognized for the products expected to be returned/exchanged);

(b) a refund liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers.* Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Classification and subsequent measurement of financial assets

Financial assets

Financial assets are subsequently measured at amortised cost:or FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses, net" line item.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including borrowings, trade and bills payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss.

Gold loan

Gold loans representing the obligation to deliver gold are classified as liabilities at FVTPL at initial recognition.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue recognition for sales settled in used gold products

The Group receives used gold products from franchisees and consumers to be used in manufacturing new gold products. There is no obligation or commitment for the Group to accept the used gold products. Except for the form of consideration, there's no difference between this arrangement and an arrangement in which our customers makes a cash payment. The directors of the Company apply judgment to assess whether or not the Group obtains control of customer-provided materials. After careful analysis of all relevant facts and circumstances, it is concluded that the Group obtains control of the used gold products. As a result, the fair value of the non-cash consideration is included in the transaction price.

The Group estimates the fair value of the non-cash consideration by reference to the real-time trading price of the Shanghai Gold Exchange on the relevant trading day.

Key sources of estimation uncertainty

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

Provision of ECL for trade receivables

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 41 of the Appendix I to this document.

Net realizable value of inventories

The Group's inventories are measured at the lower of cost and net realizable value. The net realizable value of inventories is based on estimated selling prices less any estimation costs to be incurred to completion costs necessary to make the sale. These estimates, based on the current market condition and the historical experience in selling goods of a similar nature. Changes in these estimates will affect the carrying value of inventories and profit in subsequent years. The Group reassesses the estimation at the end of each reporting period. The carrying amount of inventories is detailed in note 23 to the consolidated financial statements of the Appendix I to this document.

Sales return

The Group makes a reasonable estimate of the return rate of diamond inlaying jewellery sold. The Group has developed a statistical model for forecasting sales returns. The model used the historical return data to come up with expected return percentages. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group updates its assessment of expected returns half yearly and the refund liabilities are adjusted accordingly. Estimates of expected returns are sensitive to changes in circumstances and the Group's past experience regarding returns may not be representative of customers' actual returns in the future. The amount recognized as refund liabilities are disclosed in Note 34 of the Appendix I to this document.

Deferred tax assets

The recognition of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future, which is a key source of estimation uncertainty. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal or further recognition takes place.

RESULTS OF OPERATIONS

The following table summarizes the consolidated statements of profit or loss and other comprehensive income during the Track Record Period, details of which are set out in Appendix I to this document.

	Year ended December 31,			Six months ended June 30,	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Revenue	16,871,000	15,724,215	20,208,599	9,316,213	9,979,744
Cost of sales	(16,334,559)	(14,964,967)	(19,131,139)	(8,788,177)	(9,362,238)
Gross profit	536,441	759,248	1,077,460	528,036	617,506
Other income	27,430	28,401	27,773	7,502	10,648
Distribution and selling expenses	(176,794)	(194,473)	(257,328)	(128,337)	(118,939)
Research and development expenses	(10,723)	(13,533)	(17,470)	(7,442)	(11,258)
Administrative expenses	(75,947)	(68,275)	(79,770)	(33,521)	(40,471)
Other expenses	(17,014)	(11,465)	(8,499)	(4,997)	(2,098)
Other gains and losses, net	89,839	(208,961)	(370,014)	(195,592)	(345,725)
Finance costs	(64,161)	(56,868)	(63,134)	(31,142)	35,432
Net reversal of impairment losses/ (impairment losses) under expected credit loss model	(13,197)	10,087	(1,076)	(531)	(238)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Profit before tax	295,874	244,161	305,113	133,976	66,861
Income tax expense	(71,376)	(63,405)	(71,641)	(27,989)	(14,609)
Profit and total comprehensive income for the year/period	224,498	180,756	233,472	105,987	52,252
Profit/(loss) and total comprehensive income/(expense) for the year/period attributable to					
Owners of the Company	220,618	180,825	230,375	104,167	47,433
Non-controlling interests	3,880	(69)	3,097	1,820	4,819
	224,498	180,756	233,472	105,987	52,252
Earnings per share					
Basic and diluted (RMB)	0.98	0.80	1.01	0.45	0.21

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

Revenue

Our revenue amounted to RMB16,871.0 million, RMB15,724.2 million, RMB20,208.6 million and RMB9,979.7 million for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024. The major components of our sales were gold jewellery and other gold products, which accounted for approximately 97.5%, 97.9%, 98.4% and 98.5% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024.

We typically adjust selling price of our gold jewellery and other gold products in accordance with prevailing gold market price at the time of sales. As such, our revenue will also fluctuate according to gold price movement. To manage gold price fluctuation, we use Au (T+D) contracts which are purchased on Shanghai Gold Exchange and gold loans obtained from commercial banks as economic hedge of our commodity price risk and our exposure to variability in fair value changes attributable to price fluctuation risk associated with gold products. We settle the Au (T+D) contracts on a daily basis. For details, see "Business — Our Procurement/Suppliers — Procurement of Gold — (c) Gold price exposure management to manage fluctuations of raw material price".

Revenue breakdown by products and services

The following table sets forth the breakdown of our revenue by product and services during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Gold jewellery and other gold products	16,457,308	97.5	15,392,835	97.9	19,877,366	98.4	9,137,879	98.1	9,834,885	98.5
K-gold jewellery, diamond inlaying jewellery and other products	296,605	1.8	226,187	1.4	225,513	1.1	127,648	1.4	99,925	1.0
Services	117,087	0.7	105,193	0.7	105,720	0.5	50,686	0.5	44,934	0.5
Total	**16,871,000**	**100.0**	**15,724,215**	**100.0**	**20,208,599**	**100.0**	**9,316,213**	**100.0**	**9,979,744**	**100.0**

During the Track Record Period, we primarily derived our revenue from sales of goods and provision of services. Our sales of goods include (i) sales of gold jewellery and other gold products; and (ii) sales of K-gold jewellery, diamond inlaying jewellery and other products. While our provision of services include annual franchise fees, one-off franchise fees, brand admittance fees and others. Our sales of goods constituted a substantial portion of our revenue, amounting to 99.3%, 99.3%, 99.5% and 99.5% of our total revenue for the year ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Sales of gold jewellery and other gold products

Sales of gold jewellery and other gold products were our main source of revenue during the Track Record Period. Our revenue from sales of gold jewellery and other gold products was RMB16,457.3 million, RMB15,392.8 million, RMB19,877.4 million and RMB9,834.9 million, representing 97.5%, 97.9%, 98.4% and 98.5% of our total revenue for the year ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Our gold jewellery and other gold products include jewellery and gold bullion. The fluctuation of our sales of gold jewellery and other gold products during 2021 and 2022 was generally a result of the effects associated with the pandemic. Our sales increased materially in 2021 when economic activities recovered and our sales decreased when there were more stringent preventive measures leading to limited operation in fourth quarter of 2022. For 2023, our revenue increase was driven by the general increase of gold price and an increase in sales volume of gold products, while for the six months ended June 30, 2024, our revenue increase was driven by the general increase of gold price. According to gold price quoted on the Shanghai Gold Exchange, the average daily closing price of Au9999 significantly increased from RMB392.2/g in 2022 to RMB449.9/g in 2023, and further increased to the average daily closing price of RMB520.9/g for the six months ended June 30, 2024. Comparatively, according to gold price quoted on the Shanghai Gold Exchange, the average daily closing price of Au9999 increased from RMB374.5/g in 2021 to RMB392.2/g in 2022. The effect of increase in gold price on our revenue derived from sales of gold jewellery and other gold products was offset by the decrease in sales volume of gold products, which was caused by the decline in consumption sentiment of gold jewellery and other gold products as a result of the increase in gold price.

Gold jewellery refers to our high-purity gold jewellery, including gold bracelet, necklace, ring and earrings. Our gold jewellery is usually priced with two components, namely the gold price and the crafting fees. Our gold jewellery sales were affected by the fluctuation gold price during the Track Record Period.

Sales of K-gold jewellery, diamond inlaying jewellery and other products

We also sell K-gold jewellery, diamond inlaying jewellery and other products such as spring clasps of K-gold, silver, platinum, copper and stainless-steel. Spring clasps and accessories are usually fixed priced products without splitting the cost of materials and crafting fees. Our revenue from the K-gold jewellery, diamond inlaying jewellery and other products were RMB296.6 million, RMB226.2 million, RMB225.5 million and RMB99.9 million, representing 1.8%, 1.4%, 1.1% and 1.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Our sales of K-gold jewellery, diamond inlaying jewellery and other products decreased for the year ended December 31, 2022 because we strategically shifted our focus to high-purity gold jewellery. The sales amount then remained stable for the year ended December 31, 2023. In addition, our sales of K-gold jewellery, diamond inlaying jewellery and other products decreased by RMB27.7 million from RMB127.6 million for the six months ended June 30, 2023 to RMB99.9 million for the six months ended June 30, 2024, due to the general decline in consumption sentiment of gold-related products as a result of the increase in gold price.

Services

We received service fees from various sources including annual franchise fees, one-off franchise fees, brand admittance fees and others. Our revenue from the services was RMB117.1 million, RMB105.2 million, RMB105.7 million and RMB44.9 million, representing 0.7%, 0.7%, 0.5% and 0.5% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Our revenue derived from provision of services decreased by 11.4% or RMB5.8 million from RMB50.7 million for to RMB44.9 million. Such decrease was primarily attributable to the decrease in brand service fee we collected from franchisees for provision of product labeling services. With the general decline in consumption sentiment of gold jewellery, our sales volume for the six months ended June 30, 2024 decreased when compared with the corresponding period in 2023. Accordingly, the demand for product labeling decreased, thereby resulting in a decrease in the brand service fee we charged thereof. We recorded a decrease in revenue derived from provision of K-gold processing subcontracting service due to the general decrease in market demand for gold and gold-related products.

Revenue breakdown by distribution channels

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

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Franchise network	14,772,630	87.6	14,836,284	94.4	18,923,195	93.7	8,851,440	95.1	8,207,527	82.3
— Franchisees	*9,409,225*	*55.8*	*9,629,142*	*61.3*	*12,273,776*	*60.8*	*5,906,356*	*63.5*	*5,755,003*	*57.7*
— Provincial-dealers	*5,363,405*	*31.8*	*5,207,142*	*33.1*	*6,649,419*	*32.9*	*2,945,084*	*31.6*	*2,452,524*	*24.6*
E-commerce sales	1,608,263	9.5	364,473	2.3	750,705	3.7	172,095	1.8	1,318,687	13.2
— Self-operated online stores	*79,108*	*0.5*	*233,641*	*1.5*	*651,431*	*3.2*	*118,279*	*1.3*	*412,632*	*4.1*
— Sales to platforms	*1,529,155*	*9.0*	*130,832*	*0.8*	*99,274*	*0.5*	*53,816*	*0.5*	*906,055*	*9.1*
Self-operated stores	356,146	2.1	366,488	2.3	412,216	2.0	226,708	2.4	200,108	2.0
Others	133,961	0.8	156,970	1.0	122,483	0.6	65,970	0.7	253,422	2.5
Total	**16,871,000**	**100.0**	**15,724,215**	**100.0**	**20,208,599**	**100.0**	**9,316,213**	**100.0**	**9,979,744**	**100.0**

We generated revenue from four major distribution channels, namely: (i) franchise network; (ii) e-commerce sales; (iii) self-operated stores; and (iv) others. We derived a material portion of our revenue from sales through our franchise network, amounting to approximately 87.6%, 94.4%, 93.7% and 82.3% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Franchise network

Revenue from our franchise network included revenue derived from direct sales to franchisees and revenue derived from provincial-dealers. We had established a franchise network covering 2,850 franchise stores operated by 1,670 franchisees as of June 30, 2024. We have set up self-operated direct service centers and appointed provincial-dealers which were responsible for distribution of our products to franchisees in their respective regions. As of June 30, 2024, we had seven self-operated direct service centers that were directly managed and operated by us, and we had appointed 17 provincial-dealers.

Our revenue from direct sales to franchisees was RMB9,409.2 million, RMB9,629.1 million, RMB12,273.8 million and RMB5,755.0 million, representing 55.8%, 61.3%, 60.8% and 57.7% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Our revenue from sales to provincial-dealers was RMB5,363.4 million, RMB5,207.1 million, RMB6,649.4 million and RMB2,452.5 million, representing 31.8%, 33.1%, 32.9% and 24.6% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. For the six months ended June 30, 2024, we recorded a decrease in revenue derived from our franchise network as a result of a general decline in consumption sentiment of gold products.

The revenue contribution of sales to our franchise network, including that from both provincial-dealers and franchisees, was 87.6%, 94.4%, 93.7% and 82.3% for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024. The decrease in such revenue contribution for the six months ended June 30, 2024 when compared to the three years ended December 31, 2023 was primarily attributable to (i) the decline in consumption sentiment of gold products and (ii) the increase in revenue derived from e-commerce sales.

Under our franchise network management structure, all sales to our franchisees and provincial-dealers are buyout sales. All franchisees are required to sign franchise agreements with us for each franchise store, establishing a seller and buyer relationship rather than a principal and agent relationship. During the Track Record Period, provincial-dealers were our major customers in terms of their respective sales amount, but revenue we derived from sales to franchisees through our self-operated direct service centers in aggregate outnumbered that of revenue derived from provincial-dealers in aggregate.

E-commerce sales

We adopt two types of e-commerce sales model, namely self-operated online stores and sales to platforms.

Our revenue from e-commerce sales was RMB1,608.3 million, RMB364.5 million, RMB750.7 million and RMB1,318.7 million, representing 9.5%, 2.3%, 3.7% and 13.2% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Under our self-operated online stores model, we sell directly to consumers through establishing our online flagship stores on popular e-commerce platforms such as Tmall, JD.com, and PinDuoDuo. Consumers place orders through our online flagship stores on the e-commerce platforms, and pay for the jewellery products via the platform's payment gateway. Payments are automatically credited to our e-commerce account once the order is confirmed. We then deliver the goods to consumers, and provide after-sales services and issue invoices to them as required. Our revenue from self-operated online stores was RMB79.1 million, RMB233.6 million, RMB651.4 million and RMB412.6 million, representing 0.5%, 1.5%, 3.2% and 4.1% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, we had operation on 11, 11, 14 and 12 self-operated online stores, respectively. The increase for the year ended December 31, 2023 was mainly due to our sales through our online flagship store on JD.com, which in turn, was largely attributable to an increase in demand following the granting of consumption vouchers by a government authority. For the six months ended June 30, 2024, our revenue derived from self-operated online stores amounted to RMB412.6 million, representing a period-to-period increase of RMB294.4 million or 248.9%. Such increase was primarily attributable to promotion events on major e-commerce retail platforms such as Tmall.com and JD.com during May and June 2024, leading to an increase in our revenue derived therefrom.

Under our sales to platforms model, we sell our product directly to the e-commerce platforms and they settle with us accordingly. We deliver the goods to the warehouses of the e-commerce platforms and they are responsible for product promotion, order management and delivery. Consumers place orders and pay directly to the e-commerce platforms and the e-commerce platforms arrange delivery and provide after-sales services as necessary, whereas we provide after-sales services to the e-commerce platforms in accordance with our contractual obligations. The e-commerce platforms settle with us on a regular basis following the agreed billing period. Our revenue from sales to platforms was RMB1,529.2 million, RMB130.8 million, RMB99.3 million and RMB906.1 million, representing 9.0%, 0.8%, 0.5% and 9.1% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. The significant increase in the year ended December 31, 2021 and for the six months ended June 30, 2024 was mainly due to our sales of gold bullion to a leading PRC online discount retailer, Vipshop for a promotion event.

Self-operated stores

Our revenue from self-operated stores was RMB356.1 million, RMB366.5 million, RMB412.2 million and RMB200.1 million, representing 2.1%, 2.3%, 2.0% and 2.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. For details, see "Business — Sales and distribution channels — Offline Sales — (c) Self-operated stores".

Others

Our revenue from others was RMB134.0 million, RMB157.0 million, RMB122.5 million and RMB253.4 million, representing 0.8%, 1.0%, 0.6% and 2.5% of our total revenue for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Others include revenue in relation to subcontracting production for independent third party and to tailor-make products for specific customers.

Overall, our revenue contributed by others represented an immaterial amount of our revenue contribution during the Track Record Period. We recorded an increase in our revenue from others during the six months ended June 30, 2024 as a result of (i) an increase in our revenue from tailor-made production by RMB59.1 million or 138.4% from RMB42.7 million for the six months ended June 30, 2023 to RMB101.8 million for the six months ended June 30, 2024, and (ii) sales of gold raw materials to an Independent Third-party.

Cost of sales

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

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Cost of sales	Percentage of cost of sales	Cost of sales	Percentage of cost of sales	Cost of sales	Percentage of cost of sales	Revenue	Percentage of revenue	Cost of sales	Percentage of cost of sales
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Material costs	16,182,592	99.1	14,817,208	99.0	18,916,211	98.9	8,686,829	98.9	9,254,701	98.9
Staff costs	66,948	0.4	67,045	0.4	81,571	0.4	38,761	0.4	41,408	0.4
Overheads	48,659	0.3	56,749	0.4	87,650	0.5	37,308	0.4	48,866	0.5
Subcontracting	36,360	0.2	23,965	0.2	45,707	0.2	25,279	0.3	17,263	0.2
Total	**16,334,559**	**100.0**	**14,964,967**	**100.0**	**19,131,139**	**100.0**	**8,788,177**	**100.0**	**9,362,238**	**100.0**

Our cost of sales mainly represented material costs, which contributed approximately 99.1%, 99.0%, 98.9% and 98.9% of our total cost of sales for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Our cost of sales mainly fluctuated with our sales volume and gold price, as gold contributed a substantial majority of our material costs. Our subcontracting costs primarily consist of payments made to third parties for producing products that we believe are not commercially viable for us to produce in-house, although costs incurred for production of gold products and K-gold products per gram through entrusting external OEMs was higher than that produced in our own production facilities. The increase in staff costs and overhead in 2023 was mainly due to (i) a rise in our sales volume from 43,025.6 kg in 2022 to 48,066.6 kg in 2023, leading to higher compensation costs, and (ii) our relocation to the new production facility in 2023, where we hired additional production staff and incurred more overhead expenses.

Gross profit and gross profit margin

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our gross profit was RMB536.4 million, RMB759.2 million, RMB1,077.5 million and RMB617.5 million and our gross profit margin were 3.2%, 4.8%, 5.3% and 6.2%, respectively.

While our revenue decreased in 2022 when comparing with 2021, the corresponding gross profit increased for the same period. It was primarily due to the increasing trend of gold price during the year ended December 31, 2022, as we procured gold at a low price level before the gold price started to increase while charging our customers with the prevailing market gold price that tend to be higher than our previous purchase cost. Such timing difference between our procurement and sales transactions, coupled with the increasing trend of gold price during the year, resulted in an increase in our gross profit for the year ended December 31, 2022. Our gross profit increased in 2023 compared with 2022, mainly driven by the general increasing trend in gold price and an increase in our sales volume in 2023. Our gross profit for the six months ended June 30, 2024 compared to that of the same period in 2023 increased mainly because of the general increasing trend in gold price.

Our pricing mechanism, gross profit and gross profit margin

When we sell our gold products and K-gold, we normally charge customers based on prevailing market price of gold and crafting fees, multiplied by the weight of gold. While gold price varies according to market, crafting fees per product are generally fixed. In terms of proportion, the gold price component is substantially larger than the corresponding crafting fee component for each product. Under our cost-plus basis pricing model, our gross profit per gram of the gold product is calculated as follows:

Selling price of the product = selling gold price + crafting fee for the relevant product

Cost = gold procurement price + other cost of sales

i. In the event that gold procurement price equal to gold component of our product price (selling gold price),

   Gross profit = crafting fee for the relevant product – other cost of sales

ii. In the event that gold procurement price does not equal to gold component of our product price (selling gold price),

   Gross profit = gold price differential + crafting fee for the relevant product – other cost of sales

Essentially, our gross profit is composed of the crafting fees and gold price differential between the original gold cost on the procurement day and prevailing gold market price on the sales day. Since the crafting fees are usually fixed, our gross profit and gross profit margin are significantly influenced by fluctuations in the gold price. Below is an illustration of how our gross profit and gross profit margin may interact with changes in gold prices based on two assumptions:

i. Scenario one: where gold procurement price equals to gold component of our product price (selling gold price); and

ii. Scenario two: where gold procurement price does not equal to gold component of our product price (selling gold price).

Scenario One: gold procurement price equal to gold component of our product price

Assuming we can substantially match our gold procurement price with the gold component of our product price, where our gross profit is essentially equal to the net amount of the crafting fees and other cost of sales. A higher gold price would generally adversely impact our gross profit margin, and vice versa although the gross profit remains unchanged.

For illustration purpose:

Product: One gram of gold product

Crafting fees: RMB20 per gram

Other cost of sales: RMB5 per gram

- **Market price 1 — gold price is at RMB285 per gram**
  - o The selling price for such product would be approximately RMB285 + RMB20 = RMB305
  - o Our gross profit for such product would be approximately RMB20 – RMB5 = RMB15
  - o Our gross profit margin for such product would be approximately RMB15/RMB305 = approximately **4.9%**
- **Market price 2 — gold price is at RMB290 per gram**
  - o The selling price for such product would be approximately RMB290 + RMB20 = RMB310
  - o Our gross profit for such product would be approximately RMB20 – RMB5 = RMB15
  - o Our gross profit margin for such product would be approximately RMB15/RMB310 = approximately **4.8%**
- **Market price 3 — gold price is at RMB280 per gram**
  - o The selling price for such product would be approximately RMB280 + RMB20 = RMB300
  - o Our gross profit for such product would be approximately RMB20 – RMB5 = RMB15
  - o Our gross profit margin for such product would be approximately RMB15/RMB295 = approximately **5.0%**

The illustration above is based on the assumption that we can fully match the buying and selling prices of the gold sourced for our production, and disregard the possible impact of changes in gold prices on our gross profit. In such cases, our gross profit margin would move in the opposite direction of gold price changes (as illustrated above). However, it is not common for the gold procurement price to match the gold component of the selling price during the Track Record Period. In general, the gold price at the time of sales is either higher or lower than the procurement price.

Scenario Two: gold procurement price does not equal to gold component of our product price

For illustration purpose:

Gold procurement price: RMB285 per gram

Product: One gram of gold product

Crafting fees: RMB20 per gram

Other cost of sales: RMB5 per gram

- **Market price 1 — gold price is assumed to increase to RMB290 per gram**
  - o The selling price for such a product would be approximately RMB290 + RMB20 = RMB310
  - o Our gross profit for such a product would be approximately RMB290 – RMB285 + RMB15 = RMB20
  - o Our gross profit margin for such a product would be approximately RMB20/RMB310 = approximately **6.5**%
- **Market price 2 — gold price is assumed to decrease to RMB280 per gram**
  - o The selling price for such a product would be approximately RMB280 + RMB20 = RMB300
  - o Our gross profit for such a product would be approximately RMB280 – RMB285 + RMB15 = RMB10
  - o Our gross profit margin for such a product would be approximately RMB10/RMB300 = approximately **3.3**%

However, as an OBM, our average inventory turnover days typically ranged from one to two months, and as gold prices fluctuate, we may not be able to fully match the buying and selling prices of gold, thus leading to our gross profit being impacted by changes in gold prices.

When our average gold procurement price is lower than the gold component of our product price

Under such circumstances, both our gross profit and gross profit margin would increase.

When our average gold procurement price is higher than the gold component of our product price

Under such circumstances, both our gross profit and gross profit margin would decrease.

For instance, in 2021, the gold price generally trended downward, leading us to procure gold at a higher price level while charging our customers with the prevailing market gold price that tend to be lower than our previous purchase cost. Such timing difference between our procurement and sales transactions, coupled with the decreasing trend of gold price during the year, resulted in a decrease in our gross profit and negatively affected our gross profit margin for the year ended December 31, 2021 (as further discussed below).

The selling prices of our gold jewellery and other gold products usually reflect the market price of the raw materials in the products and crafting fees. As our products are mainly made of gold, we use gold loans and Au (T+D) contracts as economic hedge to reduce the financial impact of gold price fluctuations. As the economic hedge of Au (T+D) contracts does not directly reflect on our gross profit or gross profit margin, our gross profit and gross profit margin are subject to fluctuations of gold price.

Breakdown by products and services

The following table sets forth a breakdown of our gross profit and gross profit margin by our products and services during the Track Record Period:

	Year ended December 31,						**Six months ended June 30,**			
	2021		**2022**		**2023**		**2023**		**2024**	
	Gross profit	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	**%**	**RMB'000**	**%**	**RMB'000**	**%**	**RMB'000**	**%**	**RMB'000**	**%**
							(Unaudited)			
Gold jewellery and other gold products	360,069	2.2	594,885	3.9	920,795	4.6	448,168	4.9	548,272	5.6
K-gold jewellery, diamond inlaying jewellery and other products	70,174	23.7	63,628	28.1	62,087	27.5	32,630	25.6	27,513	27.5
Services	106,198	90.7	100,735	95.8	94,578	89.5	47,238	93.2	41,721	92.8
Total	**536,441**	**3.2**	**759,248**	**4.8**	**1,077,460**	**5.3**	**528,036**	**5.7**	**617,506**	**6.2**

Gold jewellery and other gold products

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our gross profit for gold jewellery and other gold products amounted to RMB360.1 million, RMB594.9 million, RMB920.8 million and RMB548.3 million, respectively. The fluctuation were due to factors including gold price fluctuations and timing difference in our sales cycle, limited operation due to pandemic and followed by the recovery of economic activities. Our gross profit margin for sales of gold jewellery and other gold products was 2.2%, 3.9%, 4.6% and 5.6%, for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. During the Track Record Period, our gross profit and gross profit margin were generally affected by our sales volume, gold price and timing difference between our procurement of gold and sales.

K-gold jewellery, diamond inlaying jewellery and other products

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our gross profit for K-gold jewellery, diamond inlaying jewellery and other products amounted to RMB70.2 million, RMB63.6 million, RMB62.1 million and RMB27.5 million, respectively. The gross profit fluctuation was in line with the fluctuation in revenue for K-gold jewellery, diamond inlaying jewellery and other products for the corresponding year or period. Our gross profit margin for sales of K-gold jewellery, diamond inlaying jewellery and other products was 23.7%, 28.1%, 27.5% and 27.5%, for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Our gross profit margin for K-gold jewellery, diamond inlaying jewellery and other products for 2022 increased compared to that of 2021 mainly because of an increase in the gross profit margin of K-gold jewelry products, which in turn, was partially contributed by the increase in gold price in 2022 and the timing difference between our procurement of gold and sales of K-gold products.

Services

Our gross profit for services amounted to RMB106.2 million, RMB100.7 million, RMB94.6 million and RMB41.7 million. Our gross profit margin for service fees was 90.7%, 95.8%, 89.5% and 92.8%, for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Breakdown by distribution channels

The following table sets forth the breakdown of our gross profit and gross profit margin by distribution channels during the Track Record Period:

	Year ended December 31,						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Franchise network	415,712	2.8	631,072	4.3	896,006	4.7	433,352	4.9	493,777	6.0
E-commerce platform	40,051	2.5	28,816	7.9	56,769	7.6	26,149	15.2	48,785	3.7
Self-operated stores	52,397	14.7	61,946	16.9	92,143	22.4	51,443	22.7	48,914	24.4
Others	28,281	21.1	37,414	23.8	32,542	26.6	17,092	25.9	26,030	10.3
Total	**536,441**	**3.2**	**759,248**	**4.8**	**1,077,460**	**5.3**	**528,036**	**5.7**	**617,506**	**6.2**

Franchise network

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our gross profit derived from franchise network amounted to RMB415.7 million, RMB631.1 million, RMB896.0 million and RMB493.8 million, respectively. The fluctuation was mainly driven by our revenue and the fluctuation was in line with the trend observed in the revenue from our franchise network. While our revenue from franchise network was relatively stable in 2021 and 2022, the corresponding gross profit increased for the same period. It was primarily due to the increase of gold price during the year ended December 31, 2022, as we procured gold at a relatively low price level before the gold price started to increase while charging our customers with the prevailing market gold price that tend to be higher than our previous purchase cost. Such timing difference between our procurement and sales transactions, coupled with the increase trend of gold price during the year, resulted in an increase in our gross profit from franchise network for the year ended December 31, 2022. For 2023, our gross profit increased due to higher revenue, as driven by an increase in sales volume and an increase in gold price. Our gross profit for the six months ended June 30, 2024 was primarily due to the increase in gold price. Our gross profit margin from franchise network was 2.8%, 4.3%, 4.7% and 6.0%, for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

E-commerce sales

Our e-commerce sales include sales to both e-commerce platform operators and end customers through our self-operated online stores. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, the revenue we derived from sales to e-commerce platform operators amounted to RMB1,529.2 million, RMB130.8 million, RMB99.3 million and RMB906.1 million; whereas the revenue we derived from sales through our self-operated online stores amounted to RMB79.1 million, RMB233.6 million, RMB651.4 million and RMB412.6 million. For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our gross profit from e-commerce sales amounted to RMB40.1 million, RMB28.8 million, RMB56.8 million and RMB48.8 million, respectively. The relatively higher gross profit for e-commerce sales in 2021 was due to our large quantity sales to a leading PRC online discount retailer, under our sales to platforms. We also recorded a relatively higher gross profit for the year ended December 31, 2023 because of an increase in sales on our online flagship store on JD.com, which in turn, was largely contributed by increase in demand following the granting of consumption vouchers by a government authority. Our gross profit margin from e-commerce sales was 2.5%, 7.9%, 7.6% and 3.7%, for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. The decrease in our gross profit margin for the six months ended June 30, 2024 was due to the fact that the revenue contribution of sales of gold bullion for such period was relatively higher than that for the six months ended June 30, 2023, as a result of a sales of gold bullion to a leading PRC online retailer, Vipshop for a promotional event. Sales of gold bullion entailed lower gross profit margin as we charge lower crafting fees for gold bullion, accordingly, our overall gross profit margin derived from e-commerce sales decreased.

Self-operated stores

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our gross profit for self-operated stores amounted to RMB52.4 million, RMB61.9 million, RMB92.1 million and RMB48.9 million, respectively. Our gross profit for self-operated stores increased for the year ended December 31, 2022 primarily due to our enhanced cost control and it further increased for the year ended December 31, 2023 mainly due to the timing difference between the procurement of gold and sales of gold products coupled with the substantial increase of gold price during the year, resulting in an increase in our gross profit from our self-operated stores. Our gross profit margin for self-operated stores was 14.7%, 16.9%, 22.4% and 24.4%, for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Others

For the years ended December 31 2021, 2022 and 2023 and the six months ended June 30, 2024, our gross profit for others amounted to RMB28.3 million, RMB37.4 million, RMB32.5 million and RMB26.0 million, respectively. The increase for the years ended December 31, 2021 and 2022 was in line with the fluctuation in the corresponding revenue of the respective year and the decrease for the year ended December 31, 2023 was due to higher overheads and other costs incurred as we upgraded our production facilities in relation to subcontracting production for independent third-party and tailor-make products for specific customers. Overall, our gross profit contributed by others represented an immaterial amount of our gross profit contribution during the Track Record Period. Our gross profit margin for others was 21.1%, 23.8%, 26.6% and 10.3%, for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Our gross profit margin from others sales channel for the six months ended June 30, 2024 decreased significantly compared to the gross profit margin of 2023 primarily due to the sale of gold raw materials to an Independent Third Party, which entailed lower gross profit margin.

Other income

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

	Year ended December 31,			Six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income from bank and other deposits	5,970	8,158	5,492	3,119	2,261
Other income from franchisees and provincial-dealers*(Note 1)*	2,343	4,079	3,563	1,665	1,533
Rental income	3,604	3,200	3,222	1,560	1,741
Government grants	15,416	12,648	15,230	895	2,844
Others	97	316	266	263	2,269
Total	**27,430**	**28,401**	**27,773**	**7,502**	**10,648**

Note 1: Includes interest income derived from gold loaned to relevant franchisees and provincial-dealers.

Our other income mainly consisted of (i) interest income from bank deposits; (ii) other income from franchisees; (iii) rental income; and (iv) government grants.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our other income amounted to RMB27.4 million, RMB28.4 million, RMB27.8 million and RMB10.6 million, respectively.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, income of approximately RMB15.4 million, RMB12.6 million, RMB15.2 million and RMB2.8 million, respectively, represented the subsidies from the relevant government authorities for the purpose of motivating the business development of our Group including (i) an incentive grant from Tianjin government which was granted for a period of three years commencing from 2020 and (ii) diamond imported tax refund subsidy policy as promulgated by the State Taxation Administration of The People's Republic of China in 2006. The subsidies received were in substance other financial support to our Group with no future related costs and were recognized as income when the subsidies were received. There were no unfulfilled conditions for all the government grants in the years in which they were recognized during the Track Record Period.

Distribution and selling expenses

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

	Year ended December 31						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Staff costs	84,982	48.1	96,552	49.6	114,054	44.3	55,591	43.3	55,613	46.7
Media advertising and promotion expenses	35,996	20.3	40,473	20.8	66,761	25.9	37,210	29.0	24,532	20.6
Distributor's handling fee	16,810	9.5	16,003	8.2	23,070	9.0	9,183	7.2	11,996	10.1
Depreciation and amortization	8,403	4.7	9,010	4.7	11,018	4.3	4,067	3.2	6,498	5.5
Travel expenses	7,225	4.1	7,753	4.0	12,794	5.0	5,933	4.6	4,934	4.1
Testing fee	7,092	4.0	7,049	3.6	6,696	2.6	2,894	2.3	3,436	2.9
Office expenses	5,220	3.0	5,375	2.8	5,837	2.3	4,290	3.3	2,943	2.5
Others	11,066	6.3	12,258	6.3	17,098	6.6	9,169	7.1	8,986	7.6
Total	**176,794**	**100.0**	**194,473**	**100.0**	**257,328**	**100.0**	**128,337**	**100.0**	**118,939**	**100.0**

Our distribution and selling expenses mainly consisted of staff costs, media advertising and promotion expenses.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our distribution and selling expenses amounted to RMB176.8 million, RMB194.5 million, RMB257.3 million and RMB118.9 million, respectively.

Our distribution and selling expenses generally increased during the Track Record Period. It increased by RMB17.7 million for the year ended December 31, 2022, mainly due to an increase in staff costs as a result of our increase in commission paid, whereby the commission were tied an increase in revenue for the year ended December 31, 2021 and also a general increase in our number of staff for the year ended December 31, 2022. It increased by RMB62.9 million for the year ended December 31, 2023, mainly due to an increase in staff costs as a result of increased commission payments due to an increase in revenue and a general increase in our number of staff for the year ended December 31, 2023, coupled with an increase in media advertising and promotion expenses during the year. Our distribution and selling expenses decreased from RMB128.3 million for the six months ended June 30, 2023 to RMB118.9 million for the six months ended June 30, 2024, representing a period-to-period decrease of RMB9.4 million or 7.3%. Such decrease was primarily attributable to a decrease in our media advertising and promotion expenses. Media advertising and promotion expenses were mainly expenses for placing more advertisement on social media and in railway stations and in relation to the launching of promotions on e-commerce platforms. In addition, distributor's handling fees mainly represent concessionaire expenses associated with our self-operated stores, which operate under concession agreements with shopping malls or department stores, and we are charged a handling fee based on our revenue from such self-operated stores. The increase in distributor's handling fees was generally in line with the increase in sales at our self-operated stores under concession agreements with shopping malls or department.

Moreover, our distributor's handling fee increased materially in 2023 when compared to that of 2022. Such increase was mainly attributable to a growth in sales at our self-operated stores under concession agreements with shopping malls/department stores, which in turn, was partially contributed by an increase in number of our self-operated stores in shopping malls/department stores from 29 stores (as of December 31, 2022) to 32 stores (as of December 31, 2023). Testing fees are fees paid to qualified third-party testing organizations for services required to obtain certificates of inspection to meet the statutory requirements for the sale of jewellery. These fees are generally fixed and do not vary based on the number of products tested.

Research and development expenses

The following table sets forth the breakdown of our research and development expenses during the Track Record Period:

	Year ended December 31						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Staff costs	9,243	86.2	9,238	68.3	8,862	50.7	3,951	53.1	7,145	63.5
Consumables	625	5.8	1,844	13.6	5,147	29.5	1,484	19.9	1,565	13.9
Depreciation	691	6.5	901	6.6	1,220	7.0	498	6.7	1,211	10.8
Design fees	139	1.3	868	6.4	766	4.4	616	8.3	471	4.2
Intellectual property service fee	—	—	389	2.9	930	5.3	682	9.2	329	2.9
Others	25	0.2	293	2.2	545	3.1	211	2.8	536	4.7
Total	**10,723**	**100.0**	**13,533**	**100.0**	**17,470**	**100.0**	**7,442**	**100.0**	**11,258**	**100.0**

Our research and development expenses mainly consisted of staff costs and consumables such as raw materials for used in R&D and parts and components of machinery.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our research and development expenses amounted to RMB10.7 million, RMB13.5 million, RMB17.5 million and RMB11.3 million, respectively.

Administrative expenses

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

	Year ended December 31						Six months ended June 30,			
	2021		2022		2023		2023		2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (Unaudited)	%	RMB'000	%
Staff costs	30,924	40.7	34,021	49.8	37,117	46.5	17,885	53.4	20,277	50.0
Depreciation and amortization	10,792	14.2	10,061	14.7	10,791	13.5	4,755	14.2	7,476	18.5
Office expenses	7,465	9.8	6,352	9.3	9,090	11.4	2,958	8.8	4,402	10.9
Entertainment expenses	7,481	9.9	5,831	8.5	6,086	7.6	953	2.8	620	1.5
Share-based payment	2,268	3.0	130	0.2	—	—	—	—	—	—
Agency fees	9,062	11.9	3,821	5.6	6,281	7.9	1,584	4.7	3,259	8.1
Travel expenses	1,707	2.3	2,037	3.0	2,040	2.6	898	2.7	953	2.4
Decoration expenses	1,552	2.0	765	1.1	210	0.3	64	0.2	53	0.1
Service fees	1,443	1.9	1,628	2.4	3,359	4.2	1,752	5.2	609	1.5
Others	3,253	4.3	3,629	5.4	4,796	6.0	2,672	8.0	2,822	7.0
Total	**75,947**	**100.0**	**68,275**	**100.0**	**79,770**	**100.0**	**33,521**	**100.0**	**40,471**	**100.0**

Our administrative expenses mainly represented our (i) staff costs, (ii) depreciation and amortization and (iii) office expenses.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our administrative expenses amounted to RMB75.9 million, RMB68.3 million, RMB79.8 million and RMB40.5 million, respectively. During the Track Record Period, staff costs for our administrative personnel constituted a substantial portion of our administrative expenses. The changes in staff costs were mainly in relation to the number of our administrative employees.

Other expenses

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

	Year ended December 31,			Six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Costs related to previous A-share listing attempt	13,290	7,261	4,302	2,898	—
Direct operating expenses incurred for investment properties	3,724	4,204	4,197	2,099	2,098
Total	**17,014**	**11,465**	**8,499**	**4,997**	**2,098**

Our other expenses comprise costs related to previous A-share listing attempt and direct operating expenses incurred for investment properties. Direct operating expenses incurred for investment properties refer to depreciation and amortization of our investment properties.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our other expenses amounted to RMB17.0 million, RMB11.5 million, RMB8.5 million and RMB2.1 million, respectively. The fluctuations of our other expenses were mainly due to our costs related to previous A-share listing attempt. Our direct operating expenses incurred for investment properties were generally slightly higher than our rental income for the corresponding periods because some of our investment properties had not been leased and we had no rental income for such property while we still incurred operating expenses to maintain such properties. For further details of our rental income during the Track Record Period, please refer to "— Other Income".

Other gains and losses, net

The following table sets forth the breakdown of our other gains and losses, net during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
(Loss)/gain on disposal of property, plant and equipment, intangible assets and termination of leases, net	58	1,555	(55)	218	(20)
Net foreign exchange gain/(loss)	9	(124)	(134)	(77)	53
Net realised (loss)/gain on Au (T+D) contracts*(Note)*	76,001	(170,942)	(299,391)	(158,000)	(298,527)
Net realised (loss)/gain on gold loans	13,552	(29,247)	(50,358)	(42,919)	(67,662)
Net unrealised gain/(loss) on gold loans	(973)	(8,913)	(19,735)	5,632	20,440
Fair value changes on financial assets at FVTPL	803	140	80	54	5
Charitable contribution	(443)	(2,382)	(1,146)	(500)	(613)
Others	832	952	725	—	599
Total	**89,839**	**(208,961)**	**(370,014)**	**(195,592)**	**(345,725)**

Note: Our Group uses Au (T+D) contracts which are purchased on Shanghai Gold Exchange as an economic hedge of its commodity price risk and its exposure to variability in fair value changes attributable to price fluctuation risk associated with gold products. The Au (T+D) contracts are settled on a daily basis.

However, our Group does not formally designate or document the hedging transactions with respect to the Au (T+D) contracts. Therefore, those transactions are not designated for hedge accounting. We do not treat such arrangements as hedging arrangements since (i) we do not have formal designation and documentation of the hedging relationship, risk management objective for accounting purpose and strategy for undertaking the hedge; and (ii) the arrangements do not meet all of the hedge effectiveness requirements under HKFRS 9. As such, we have not had any hedging arrangements in this regard.

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our other gains and losses, net amounted to gain of RMB89.8 million, loss of RMB209.0 million, loss of RMB370.0 million and loss of RMB345.7 million, respectively.

Our other gains and losses, net mainly consist of gains or losses we incurred in connection with our Au (T+D) contracts and gold loans. According to gold price quoted on the Shanghai Gold Exchange, the average daily closing price of Au9999 decreased from RMB387.4/g in 2020 to RMB374.5/g in 2021, then to RMB392.2/g in 2022 and further increased to RMB449.9/g in 2023, and further increased to the average daily closing price of RMB520.9/g for the six months ended June 30, 2024. Accordingly, we recorded net realized losses on Au (T+D) contracts and gold loans for the years ended December 31, 2022 and 2023 and six months ended June 30, 2024. Conversely, we recorded net realized gain from Au (T+D) contracts and gold loans in 2021. The trend generally negatively corresponded with the price of Au9999. For the six months ended June 30, 2024, we recorded an increase in net realised loss on Au (T+D) contracts in the sum of RMB140.5 million, representing a period-to-period increase of approximately 88.9% when compared to the corresponding period in 2023. Such increase in loss is primarily attributable to a significant increase in gold price during the first half of 2024.

Finance costs

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

	Year ended December 31,			Six months ended June 30,	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Interest on borrowings	23,921	27,891	33,703	15,059	22,890
Interest on gold loans	19,948	18,526	17,272	7,130	9,646
Interest on bills discounted with recourse	18,366	8,931	11,224	8,483	2,335
Interest on lease liabilities	1,926	1,520	935	470	561
Total	**64,161**	**56,868**	**63,134**	**31,142**	**35,432**

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our finance costs amounted to RMB64.2 million, RMB56.9 million, RMB63.1 million and RMB35.4 million, respectively.

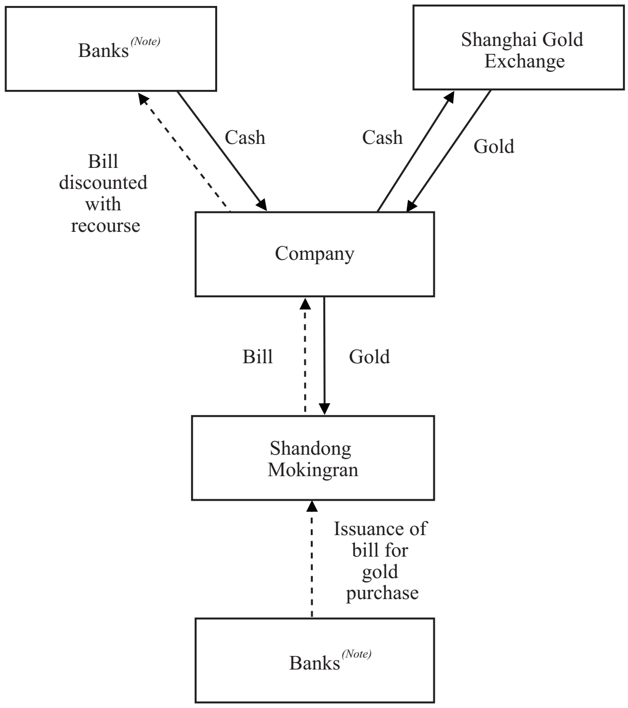
Our finance costs represented (i) interest on borrowings, (ii) interest on gold loans, (iii) interest on bills discounted with recourse and (iv) interest on lease liabilities. Interest on bills discounted with recourse is in relation to the cash received on bills receivables discounted to various banks with full recourse related to discounted bills issued among subsidiaries of our Group for intra-group transactions.

Reason(s) for applying bills as a payment method

Bills discounted with recourse were in relation to intra-group transactions which involved bills obtained from banks by various Group members. Due to the fact that our procurement and production are performed by different entities of our Group, our Group conducted intra-group transactions between the production entity and the procurement entities for the purchase of gold and gold finished products. As some of the banking facilities obtained by us had restrictions that they can be used for bills settlement purpose, we utilised such bills as the payment method for the intra-group transactions, as opposed to using cash or other banking facilities. These intra-group transactions represented genuine transactions in relation to different subsidiaries' operation, and the lending banks were aware of the intra-group transactions as the entities involved in the intra-group transactions are named in the relevant documents submitted to the lending banks for the issuance of bills. In situations where the banks issuing the bills were not the same banks receiving the bills, the bank receiving the bill directly cashes out the bill from the bank issuing the bill and no transaction documents are submitted to such bank. The majority of the bills are secured by security deposits.

The following diagrams illustrate the transactions in relation to bill discounted with recourse in the Track Record Period:

Mainly: Bills for purchasing gold for subsidiaries



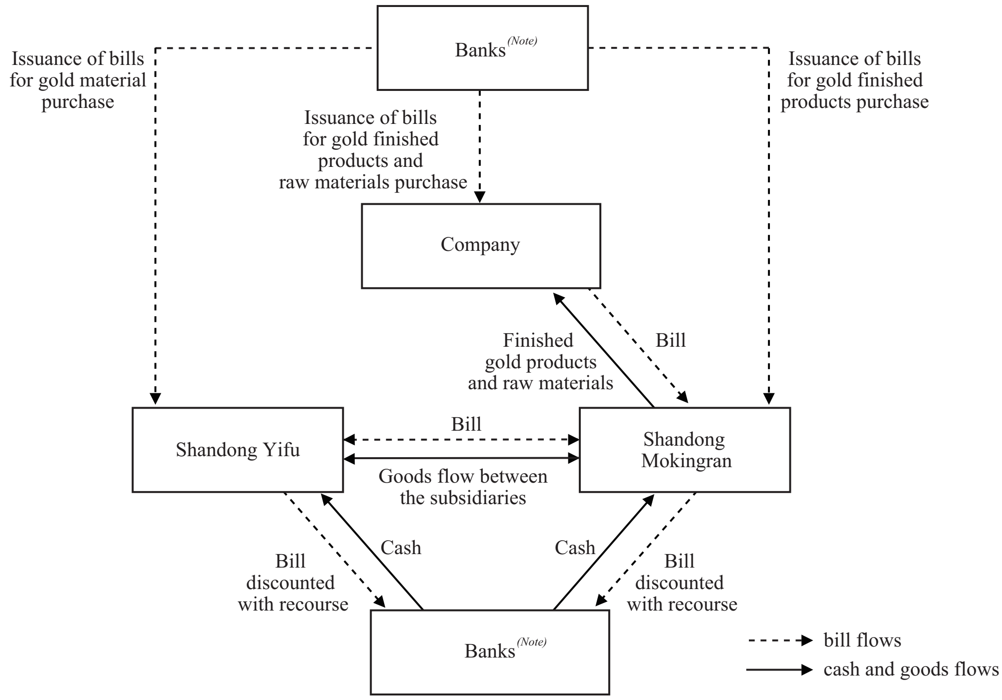
Note: The banks issuing the bills may or may not be the same banks receiving the bills.

Our bills discounted with recourse mainly represented bills utilized by Shandong Mokingran for gold purchase from our Company. Bills discounted with recourse were part of the bundle of financing options under the credit line provided to us by relevant financial institutions, under which the relevant bills can only be applied for the purpose specified in the facilities documents. When we need external financing for transactions, we utilize the financing method that is most accessible and/or commercially feasible for us, which at times, includes the bills discounted with recourse instead of direct drawdown. We are also required to submit relevant transactional document of relevant arrangement to the banks for their independent review before we use bank bills as settlement tools. In addition, Frost & Sullivan confirmed that bank bills are commonly used as a settlement mean, which further substantiates that the relevant transactions were conducted in accordance with commercial norms. Accordingly, our Directors are of the view that the bank bills were proper commercial settlement tools.

Our Directors are also of the view that the bank bills represented genuine business transactions because: (i) stemming from our historical development and growth over the years, we have delineated responsibilities within and amongst our Group entities. Such delineation may originate from an operational efficacy standpoint, with certain entities designated to procure materials and others to focus on manufacture and/or sales. According to Frost & Sullivan, it is very common in China that companies in the same group have different functions in business operation, (ii) the aforementioned delineation of responsibilities thus led to genuine intra-group transactions that involve the procurement of raw materials and sales of products, (iii) in our Group's case, bank bills were granted to and applied by certain of our entities to settle the relevant purchase in intra-group transactions. Such bills were issued by commercial banks that operate under strict regulatory regimes, which also requires that they properly assess and document relevant transactions. Accordingly, we had been required to submit relevant transactional documents of the relevant arrangements to the banks for their independent review to verify the genuineness of respective transactions and bills were only issued after the relevant bank's review/analysis of the relevant transactions/documents, and (iv) following the receipt of the bank bills, actual transactions were conducted with product and fund flow in the same manner stated in the relevant transactional documents submitted to the banks.

Under the current transaction process, Shandong Mokingran, our subsidiary responsible for our sales to provincial-dealers, would purchase gold from our Company. Upon receiving the bank bills from Shandong Mokingran, our Company would discount the bank bills with commercial banks for financing and apply such capital to the procurement of gold from the Shanghai Gold Exchange, as the Shanghai Gold Exchange does not accept bills as payment method. Our Company, as a special member of the Shanghai Gold Exchange, is the only member of our Group who could procure gold directly from the Shanghai Gold Exchange. By adopting aforementioned transaction flow, we will be able to utilize our Company's membership to procure gold directly from the Shanghai Gold Exchange. According to Frost & Sullivan, such arrangement is common in the industry.

Miscellaneous: Purchase of gold finished products, raw materials and other intra-group transactions



Note: The banks issuing the bills may or may not be the same banks receiving the bills.

The miscellaneous scenarios relate to (i) the Company purchasing gold finished products and raw materials from Shandong Mokingran, and (ii) intra-group transactions between Shandong Mokingran and Shandong Yifu which involves purchase of raw materials and finished goods between the intra-group entities.

For details of other miscellaneous transactions in relation to bills discounted with recourse, please see the table below.

	Purchase of gold finished products and raw materials	Other intra-group transactions
Parties	Buyer: Company Seller: Shandong Mokingran	Shandong Mokingran and Shandong Yifu
Transaction matter	Our Company utilized bank bills to purchase gold finished products for selling to franchisees through our self-operated direct service centers and raw materials from Shandong Mokingran for commissioning Shandong Yifu for production	(I) Shandong Yifu purchasing materials for production from Shandong Mokingran (II) Shandong Mokingran purchasing gold finished products from Shandong Yifu for selling purpose

	Gold purchase	Purchase of gold finished products and raw materials	Other intra-group transactions
Discounted bills amount (RMB million)			
For the year ended December 31, 2021	451.1	242.6	88.0
For the year ended December 31, 2022	551.1	Nil	Nil
For the year ended December 31, 2023	464.8	98.7	Nil
For the six months ended June 30, 2024	Nil	Nil	Nil
[REDACTED] from bill discounted with recourse	Purchase gold from the Shanghai Gold Exchange	Working capital	Working capital
Term of bills issued	Up to 12 months	Up to 12 months	Up to 12 months
Discounted rates	0.8% to 2.8%	2.65% to 2.96%	2.9% to 3.5%
Security deposit	Mainly 50% security deposit for the value of the bills to be issued	40% to 50% security deposit	50% to 100% security deposit
Total amount of transactions (including cash settlement and bill settlement) (RMB million)			
For the year ended December 31, 2021	1,132.4	347.9	154.2
For the year ended December 31, 2022	927.2	N/A	N/A
For the year ended December 31, 2023	632.2	109.7	N/A
For the six months ended June 30, 2024	N/A	N/A	N/A

As advised by our PRC Legal Advisor, the aforementioned use of bills discounted with recourse did not violate Negotiable Instruments Law of the PRC or applicable prohibitive laws, considering that these bank bills represented genuine business transactions and were proper commercial settlement tools. Based on the foregoing, these bank bills do not fall under non-compliant bill financing as stipulated under chapter 1.2D of the Guide For New Listing Applicants.

Based on the independent due diligence performed by the Sole Sponsor including, without limitation, (i) discussing with key members of the Group's management who oversee the Group's financial matters to understand the nature, purpose and frequency of the bank bills and the underlying business transactions; (ii) obtaining and reviewing relevant supporting documents related to the underlying business transactions and the bank bill arrangements, including copies of bank bills issued, invoices, contracts for the intra-group transactions, payment records, evidence of goods delivery, shipment details, and inventory records to verify the actual occurrence of the transactions and corroborate the commercial substance of the underlying business transactions and verify their consistency with the explanations provided by the Group's management; (iii) discussing with the Reporting Accountants in relation to the audit procedures they conducted on the genuineness of the underlying business transactions related to the bank bills under bank borrowings in forming an opinion on the Historical Financial Information as a whole; (iv) interviewing several banks providing financing to the Group, at which certain bank bills were issued, to understand the procedures undertaken by the banks to verify the genuineness of the underlying business transactions; (v) discussing with the PRC Legal Advisor, to understand whether bank bills are legitimate commercial settlement tools and compliant with PRC laws. The PRC Legal Advisor confirmed that, considering that the bank bills represented genuine business transactions and were proper commercial settlement tools, the use of such bank bills did not violate Negotiable Instruments Law of the PRC or applicable prohibitive laws; and (vi) discussing with the Industry Consultant to understand the prevalence and extent of use of similar bank bill arrangements for intra-group transactions by other market players in the industry and the rationale behind employing such arrangements in the industry, the Sole Sponsor concurs with the Directors' view that the bank bills represent genuine business transactions.

Net reversal of impairment losses/(impairment losses) under expected credit loss model

The following table sets forth the breakdown of our net reversal of impairment losses/(impairment losses) under expected credit loss model during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Impairment losses, net of reversals, recognized on:					
— Trade receivables . . .	(12,402)	11,116	(675)	(666)	424
— Other receivables . . .	(795)	(1,029)	(401)	135	(662)
Total	**(13,197)**	**10,087**	**(1,076)**	**(531)**	**(238)**

Our net reversal of impairment losses/(impairment losses) under expected credit loss model mainly represented impairment losses, net of reversals, recognized on (i) trade receivables, and (ii) other receivables.

Our Group writes off trade receivables or other receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs earlier.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2021	21	34,391	34,412
Transfer to credit-impaired	(1)	1	—
Impairment losses recognized	216	13,321	13,537
Impairment losses reversed	—	(1,135)	(1,135)
Write-offs	—	(1)	(1)
At December 31, 2021	236	46,577	46,813
Impairment losses recognized	2	—	2
Impairment losses reversed	(185)	(10,933)	(11,118)
At December 31, 2022	53	35,644	35,697
Impairment losses recognized	13	2,735	2,748
Impairment losses reversed	(6)	(2,067)	(2,073)
At December 31, 2023	60	36,312	36,372
Impairment losses recognized	34	—	34
Impairment losses reversed	(8)	(450)	(458)
At June 30, 2024	86	35,862	35,948

The following tables show reconciliation of loss allowances that has been recognized for other receivables.

	12m ECL	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2021	1,837	170	2,007
Impairment losses recognized	869	—	869
Impairment losses reversed	(74)	—	(74)
At December 31, 2021	2,632	170	2,802
Impairment losses recognized	880	489	1,369
Impairment losses reversed	(340)	—	(340)
Write-offs	—	(659)	(659)
At December 31, 2022	3,172	—	3,172
Transfer to credit-impaired	(112)	112	—
Impairment losses recognized	801	—	801
Impairment losses reversed	(400)	—	(400)
Write-offs	—	(112)	(112)
At December 31, 2023	3,461	—	3,461
Impairment losses recognized	747	—	747
Impairment losses reversed	(85)	—	(85)
At June 30, 2024	4,123	—	4,123

Income tax expenses

During the Track Record Period, the assessable profit of our other PRC subsidiaries was subject to a statutory rate of 25.0% determined in accordance with the EIT Law. See note 12 to the historical financial information in the Accountants' Report set out in Appendix I to this document for further details.

Our income tax expense amounted to RMB71.4 million, RMB63.4 million, RMB71.6 million and RMB14.6 million for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Our effective tax rates were 24.1%, 26.0%, 23.5% and 21.8% for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively. Our effective tax rates were in line with the statutory tax rate of 25.0%, with fluctuations mainly due to the different tax rates entitled by certain of our subsidiaries and the deductible allowance for research and development cost for tax purpose.

As of the Latest Practicable Date and during the Track Record Period, our Directors confirmed that we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Six months ended June 30, 2024 compared to six months ended June 30, 2023

Revenue

Our revenue increased by RMB663.5 million or 7.1% from RMB9,316.2 million for the six months ended June 30, 2023 to RMB9,979.7 million for the six months ended June 30, 2024. The increase in our revenue was mainly due to an increase in gold price. According to gold price quoted on the Shanghai Gold Exchange, the average daily closing price of Au9999 was RMB520.9/g for the six months ended June 30, 2024, compared with that of RMB435.5/g for the six months June 30, 2023. As we charged our customers according to the prevailing gold market price of gold jewellery products, higher market gold price in the six months ended June 30, 2024 led to an increase in our revenue for the six months ended June 30, 2024 when compared with the six months ended June 30, 2023.

In terms of products, for the six months ended June 30, 2024, 98.5% of our revenue was derived from sales of gold jewellery and other gold products, which is similar to the revenue contribution of sales of gold jewellery and other gold products for the six months ended June 30, 2023. Accordingly, the increase in our revenue was primarily driven by (i) the revenue increase of our gold jewellery and other gold products as a result of the increase in gold market price, the increment of which amounted to RMB697.0 million for the six months ended June 30, 2024 when compared to that of the six months ended June 30, 2023, and (ii) our sales of gold bullion to a leading PRC e-commerce platform, Vipshop for a promotional event during the first half of 2024.

In terms of distribution channels, our revenue increase was mainly driven by e-commerce sales, which increased by RMB1,146.6 million or 666.3% from RMB172.1 million for the six months ended June 30, 2023 to RMB1,318.7 million. Such increase was mainly attributable to our sales of gold bullion to a leading PRC e-commerce platform, Vipshop for a promotional event. In addition, during the six months ended June 30, 2024, our revenue derived from provision of tailor-made production services increased by RMB59.1 million or 138.4% from RMB42.7 million for the six months ended June 30, 2023 to RMB101.8 million for the six months ended June 30, 2024. The increase in our revenue derived from e-commerce sales was partially offset by the decrease in revenue generated from sales to our franchise network as consumer sentiments were affected by the economic condition and gold price in general.

The sales volume of gold jewellery and other gold products for the six months ended June 30, 2023 and 2024 amounted to 22,986.2 kg and 20,588.7 kg respectively.

Cost of sales

Our cost of sales increased by 6.5% from RMB8,788.2 million for the six months ended June 30, 2023 to RMB9,362.2 million for the six months ended June 30, 2024, which was in line with the change in revenue. Our material costs, which accounted for 98.9% and 98.9% of our cost of sales for the six months ended June 30, 2023 and 2024, respectively, increased by RMB567.9 million. Such increase was mainly due to gold price increase in the six months ended June 30, 2024 compared with the same period of 2023.

Gross profit and gross profit margin

As a result of the changes in our revenue and cost of sales described above, our gross profit increased by 16.9% from RMB528.0 million for the six months ended June 30, 2023 to RMB617.5 million for the period ended June 30, 2024. The increase in our gross profit for the six months ended June 30, 2023 to June 30, 2024 was largely in line with the increase in revenue for the same period.

The gross profit margin for six months ended June 30, 2023 and 2024 were 5.7% and 6.2%, respectively, which were relatively stable.

Other income

Our other income increased by RMB3.1 million from RMB7.5 million for the six months ended June 30, 2023 to RMB10.6 million for the six months ended June 30, 2024. It was mainly due to an additional deduction for value-added tax in the sum of RMB2.2 million during the six months ended June 30, 2024 when compared to the same period in 2023. On the other hand, we recorded an increase of RMB2.1 million in relation to an incentive grant we received from Liaoning Province's cultural development fund, which further contributed to the increase in our other income. Such increases was partially offset by a slight decrease in our interest income from bank and other deposits by RMB0.9 million when compared to the same for the six months ended June 30, 2023.

Distribution and selling expenses

Our distribution and selling expenses decreased by 7.3% from RMB128.3 million for the six months ended June 30, 2023 to RMB118.9 million for the six months ended June 30, 2024 mainly due to decrease in media advertising and promotion expenses as we reduced such spending in light of the overall market condition.

Research and development expenses

Our research and development expenses increased from RMB7.4 million for the six months ended June 30, 2023 to RMB11.3 million for the six months ended June 30, 2024, representing a period-on-period increase of 51.3%. Such increase was mainly due to our increased number of staff we hired to further develop machinery R&D, technology R&D and product R&D.

Administrative expenses

Our administrative expenses increased from RMB33.5 million for the six months ended June 30, 2023 and at RMB40.5 million for the six months ended June 30, 2024. Such increase was partly due to an increase in staff cost, depreciation and amortization costs and office expenses of RMB2.4 million, RMB2.7 million and RMB1.4 million, respectively, which in turn, was related to our relocation to the existing new production facility and for which we hired additional administrative staff and incurred more depreciation and amortization costs and office expenses.

Other expenses

Our other expenses decreased by RMB2.9 million from RMB5.0 million for the six months ended June 30, 2023 to RMB2.1 million for the six months ended June 30, 2024. The decrease was mainly due to a reduction in costs related to previous A-share listing attempt as we incurred no such cost during the six months ended June 30, 2024.

Other gains and losses, net

Our other gains and losses, net increase by RMB150.1 million from a loss of RMB195.6 million for the six months ended June 30, 2023 to a loss of RMB345.7 million for the six months ended June 30, 2024 mainly due to an increase in net realised loss on Au (T+D) contracts in the sum of RMB140.5 million, representing an increase of approximately 88.9% when compared to the corresponding period in 2023. Such loss was due to the fact that the magnitude of gold price increase for the six months ended June 30, 2024 was larger than that of the corresponding period in 2023.

Finance costs

Our finance costs increased by RMB4.3 million from RMB31.1 million for the six months ended June 30, 2023 to RMB35.4 million for the six months ended June 30, 2024 primarily due to an increase in interest on borrowings in the sum of RMB7.8 million and an increase in interest on gold loans in the sum of RMB2.5 million, which was partially offset by a decrease in interest on bills discounted with recourse of RMB6.1 million as we reduced the application of such bills for procurement settlement purposes.

Net reversal of impairment losses/(impairment losses) under expected credit loss model

We recorded net impairment losses under expected credit loss model of RMB0.2 million for the six months ended June 30, 2024 and a net reversal of impairment losses of RMB0.5 million for the six months ended June 30, 2023. For the six months ended June 30, 2024, we had no material reversal of impairment losses.

Income tax expenses

Our income tax expense decreased by RMB13.4 million from RMB28.0 million for the six months ended June 30, 2023 to RMB14.6 million for the six months ended June 30, 2024 primarily attributable to a decrease in our profit before tax.

Our effective tax rate slightly increased from 20.9% for the six months ended June 30, 2023 to 21.8% for the six months ended June 30, 2024.

Profit for the period

Our profit for the period decreased from RMB106.0 million for the six months ended June 30, 2023 to RMB52.3 million for the six months ended June 30, 2024, representing a period-to-period decrease of approximately 50.7%. Despite an increase in our total revenue, our profit for the period decreased as a result of an increase in net realised loss on Au (T+D) contracts due to the rapid increase in gold price during the six months ended June 30, 2024.

Our net profit margin decreased by 0.6 percentage point from 1.1% for the six months ended June 30, 2023 to 0.5% for the six months ended June 30, 2024.

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

Revenue

Our revenue increased by RMB4,484.4 million or 28.5% from RMB15,724.2 million for the year ended December 31, 2022 to RMB20,208.6 million for the year ended December 31, 2023. The increase in our revenue was mainly due to the recovery of economic activities in 2023, whereas our sales were affected by pandemic in 2022. Our revenue increase was also attributable to the relatively higher gold market price in 2023 than the gold market price in 2022. According to gold price quoted on the Shanghai Gold Exchange, the average daily closing price of Au9999 was RMB449.9/g as of December 31, 2023, compared with that of RMB392.2/g as of December 31, 2022. As we charged our customers according to the prevailing gold market price of gold jewellery products, higher market gold price in 2023 led to an increase in our revenue for the year ended December 31, 2023 when compared with the year ended December 31, 2022.

In terms of products, the increase in our revenue was primarily due to revenue growth for our gold jewellery and other gold products, where our sales in gold jewellery and other gold products increased by RMB4,484.5 million for the year ended December 31, 2023 compared to the year ended December 31, 2022.

In terms of distribution channels, our revenue increase was mainly due to revenue increase via our franchise network, which increased by RMB4,086.9 million or 27.5% from RMB14,836.3 million for the year ended December 31, 2022 to RMB18,923.2 million for the year ended December 31, 2023. Such increase was attributable to our direct sales to franchisees through our direct service centers, which increased by RMB2,644.6 million for the year ended December 31, 2023 compared with the year ended December 31, 2022, as well as our sales to provincial-dealers, which increased by RMB1,442.3 million for the compared years.

The sales volume of gold jewellery and other gold products for the years ended December 31, 2022 and 2023 amounted to 43,025.6 kg and 48,066.6 kg respectively.

Cost of sales

Our cost of sales increased by 27.8% from RMB14,965.0 million for the year ended December 31, 2022 to RMB19,131.1 million for the year ended December 31, 2023, which was in line with the change in revenue. Our material costs, which accounted for 99.0% and 98.9% of our cost of sales for the year ended December 31, 2022 and 2023, respectively, increased by RMB4,099.0 million for the year ended December 31, 2023. Such increase was mainly due to the relatively higher level of gold market price in 2023 compared with that in 2022.

Gross profit and gross profit margin

As a result of the changes in our revenue and cost of sales described above, our gross profit increased by 41.9% from RMB759.2 million for the year ended December 31, 2022 to RMB1,077.5 million for the year ended December 31, 2023. The increase in our gross profit for the year ended December 31, 2022 to December 31, 2023 was largely in line with the increase in revenue for the same period, with the increasing trend of gold prices during the year resulting in a higher growth of our gross profit as compared to the growth of our revenue.

The gross profit margin for the years ended December 31, 2022 and 2023 were 4.8% and 5.3%, respectively. The increase was primarily due to the increasing trend of gold price during the year ended December 31, 2023, as we procured gold at a relatively low price level before the gold price started to increase while charging our customers with the prevailing market gold price that tend to be higher than our previous purchase cost. Such timing difference between our procurement and sales transactions, coupled with the increasing trend of gold price during the year, resulted in an increase in our gross profit margin for the year ended December 31, 2023.

The selling prices of our gold jewellery and other gold products usually reflect the market price of the raw materials in the products and crafting fees. As our products are mainly made of gold, we use gold loans and Au (T+D) contracts as economic hedge to reduce the financial impact of gold price fluctuations. As the economic hedge of Au (T+D) contracts does not directly reflect on our gross profit or gross profit margin, our gross profit and gross profit margin are subject to fluctuations of gold price.

Other income

Our other income slightly decreased by RMB0.6 million from RMB28.4 million for the year ended December 31, 2022 to RMB27.8 million for the year ended December 31, 2023. It was relatively stable.

Distribution and selling expenses

Our distribution and selling expenses increased by 32.3% from RMB194.5 million for the year ended December 31, 2022 to RMB257.3 million for the year ended December 31, 2023 mainly due to increases in employees remuneration as a result of commission paid to employees, advertising expenses and marketing expenses as a result of our increased effort in marketing and promotion and our business expansion.

Research and development expenses

Our research and development expenses increased from RMB13.5 million for the year ended December 31, 2022 to RMB17.5 million for the year ended December 31, 2023 mainly due to (i) an increase in our R&D expenses of molds and equipment, particularly for spring clasp equipment; (ii) an increase in our R&D of product design styles; and (iii) an increase in the expenses for intellectual property application fees and agency fees.

Administrative expenses

Our administrative expenses increased by RMB11.5 million from RMB68.3 million for the year ended December 31, 2022 to RMB79.8 million for the year ended December 31, 2023. The increase was partly due to an increase in staff cost and office expenses of RMB3.1 million and RMB2.7 million, respectively, which in turn, was related to our relocation to the existing new production facility during 2023 and for which we hired additional administrative staff and incurred more office expenses.

Other expenses

Our other expenses decreased by RMB3.0 million from RMB11.5 million for the year ended December 31, 2022 to RMB8.5 million for the year ended December 31, 2023. The decrease was mainly due to we have incurred less expenses related to previous A-share listing attempt in 2022 but not in 2023.

Other gains and losses, net

Our other gains and losses, net decreased by RMB161.0 million from a loss of RMB209.0 million for the year ended December 31, 2022 to a loss of RMB370.0 million for the year ended December 31, 2023 mainly due to we have incurred losses in connection with our Au (T+D) contracts and gold loans. According to gold price quoted on the Shanghai Gold Exchange, the average daily closing price of Au9999 significantly increased from RMB392.2/g in 2022 to RMB449.9/g in 2023. Accordingly, we recorded net realized losses on Au (T+D) contracts and gold loans while we benefited from higher gross profit for the year ended December 31, 2023.

Finance costs

Our finance costs increased by RMB6.2 million from RMB56.9 million for the year ended December 31, 2022 to RMB63.1 million for the year ended December 31, 2023 primarily due to increase in interest paid on borrowings and bills discounted with recourse. We mainly utilized the fundings for the procurement of gold raw materials because the expansion of our business operations leads to an increased demand for financing in 2023.

Net reversal of impairment losses/(impairment losses) under expected credit loss model

We recorded net impairment losses under expected credit loss model of RMB1.1 million for the year ended December 31, 2023 and a net reversal of impairment losses of RMB10.1 million for the year ended December 31, 2022. For the year ended December 31, 2022, we reversed impairment losses as we managed to collect certain impaired trade receivables through legal actions from a customer who previously purchased gold bullion from us prior to the Track Record Period. For the year ended December 31, 2023, we had no material reversal of impairment losses.

Income tax expenses

Our income tax expense increased by RMB8.2 million from RMB63.4 million for the year ended December 31, 2022 to RMB71.6 million for the year ended December 31, 2023 primarily attributable to business expansion.

Our effective tax rate decreased from 26.0% for the year ended December 31, 2022 to 23.5% for the year ended December 31, 2023. They were generally in line with the statutory tax rate of 25.0%, with fluctuations mainly due to the different tax rates entitled by certain of our subsidiaries and the deductible allowance for research and development cost for tax purpose.

Profit for the period

As a result of the foregoing, our profit increased by RMB52.7 million from RMB180.8 million for the year ended December 31, 2022 to RMB233.5 million for the year ended December 31, 2023.

Our net profit margin remained stable with a slight increase from 1.1% for the year ended December 31, 2022 to 1.2% for the year ended December 31, 2023.

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

Revenue

Our revenue decreased by RMB1,146.8 million or 6.8% from RMB16,871.0 million for the year ended December 31, 2021 to RMB15,724.2 million for the year ended December 31, 2022. The decrease was mainly because our sales were affected by pandemic for the year ended December 31, 2022 as well as we recorded a surge in sales from e-commerce in 2021 as we sold a large batch of gold bullion to a leading PRC online discount retailer, Vipshop for a promotion event. We did not record comparable sales from this source for the year ended December 31, 2022.

In terms of breakdown by distribution channels, our sales through franchise network were relatively stable, at RMB14,772.6 million for the year ended December 31, 2021 and RMB14,836.3 million for the year ended December 31, 2022. The decrease was mainly due to the decrease in sales via our e-commerce by RMB1,243.8 million.

The sales volume of gold jewellery and other gold products for the years ended December 31, 2021 and 2022 amounted to 48,089.8 kg and 43,025.6 kg respectively.

Cost of sales

Our cost of sales decreased by RMB1,369.6 million or 8.4% from RMB16,334.6 million for the year ended December 31, 2021 to RMB14,965.0 million for the year ended December 31, 2022, which was primarily due to our decrease in revenue and partly offset by the increase in gold price for the year ended December 31, 2022.

Gross profit and gross profit margin

As a result of the changes in our revenue and cost of sales described above, our gross profit increased by RMB222.8 million or 41.5% from RMB536.4 million for the year ended December 31, 2021 to RMB759.2 million for the year ended December 31, 2022. It was primarily due to the increase of gold price during the year ended December 31, 2022. The average annual closing price for Au9999 in the PRC experienced a general upward trend from RMB374.5/g in 2021 to RMB392.2/g in 2022, according to gold price quoted on the Shanghai Gold Exchange. As an OBM, our average inventory turnover days typically ranged from one to two months. This means that, in general for the year, we tend to procure gold at a relatively low price level while charging our customers with the prevailing market gold price that tend to be higher than our previous purchase cost. Such timing difference between our procurement and sales transactions, coupled with the increase trend of gold price during the year, resulted in an increase in our gross profit for the year ended December 31, 2022.

In terms of breakdown by products, the gross profit for our gold jewellery and other gold products increased by RMB234.8 million. In terms of distribution channel, our gross profit increase was mainly due to the increase in gross profit in our franchise network, which increased by RMB215.4 million.

The gross profit margin increased from 3.2% for year ended December 31, 2021 to 4.8% for the year ended December 31, 2022, mainly due to the factors as described above in the analysis of gross profit and also due to increased gross profit margin of gold jewellery and other gold products, which was mainly due to the our sales of gold bullion to a leading PRC online discount retailer, Vipshop for a promotion collaboration event in 2021 and that in 2022 we did not record similar sales. Gold bullion generally has a lower gross profit margin than gold jewellery.

Other income

Our other income remained relatively stable, at RMB27.4 million for the year ended December 31, 2021 and at RMB28.4 million for the year ended December 31, 2022 mainly due to the increased interest from bank and other deposits offset by the decreased government grants.

Distribution and selling expenses

Our distribution and selling expenses increased by RMB17.7 million from RMB176.8 million for the year ended December 31, 2021 to RMB194.5 million for the year ended December 31, 2022 mainly due to a substantial increase in employees remuneration in light of an increase of staff number, as well as increased spending on advertising expenses and marketing expenses for our business expansion. Such media advertising expenses included placing more advertisement in social media and in railway stations and such publicity and promotion expenses were mainly in relation to the launching of promotion expenses on e-commerce platforms.

Research and development expenses

Our research and development expenses increased by RMB2.8 million from RMB10.7 million for the year ended December 31, 2021 to RMB13.5 million for the year ended December 31, 2022 mainly due to our increased R&D consumables.

Administrative expenses

Our administrative expenses decreased by RMB7.6 million from RMB75.9 million for the year ended December 31, 2021 to RMB68.3 million for the year ended December 31, 2022. Such decrease was primarily attributable to our limited operation during the fourth quarter of 2022 as a result of pandemic.

Other expenses

Our other expenses decreased by RMB5.5 million from RMB17.0 million for the year ended December 31, 2021 to RMB11.5 million for the year ended December 31, 2022. The decrease was mainly due to the decrease in costs related to previous A-share listing attempt in the amount of RMB13.3 million for the year ended December 31, 2021. We had an A-share listing attempt in 2021 and following its cessation, we initiated another attempt in 2022, but incurred less cost comparatively due to differences in work stage.

Other gains and losses, net

Our other gains and losses, net decreased by RMB298.8 million from a gain of RMB89.8 million for the year ended December 31, 2021 to a loss of RMB209.0 million for the year ended December 31, 2022. Such decrease was mainly due to net realized loss on Au (T+D) contracts, because of the general increase of gold price from 2021 to 2022, which according to gold price quoted on the Shanghai Gold Exchange, the average annual closing price for Au9999 increased from RMB374.5/g for 2021 to RMB392.2/g for 2022.

Finance costs

Our finance costs decreased by RMB7.3 million from RMB64.2 million for the year ended December 31, 2021 to RMB56.9 million for the year ended December 31, 2022 mainly due to decrease in interest paid on bills discounted with recourse. We utilized less bills discounted with recourse mainly because of limited operation caused by pandemic and we have less financing need.

Net reversal of impairment losses/(impairment losses) under expected credit loss model

We recorded net impairment losses under expected credit loss model of RMB13.2 million for the year ended December 31, 2021 and a net reversal of impairment losses of RMB10.1 million for year ended December 31, 2022. For the year ended December 31, 2022, we reversed impairment losses of RMB11.1 million as we managed to collect certain impaired trade receivables through legal actions from a customer who previously purchased gold bullion from us prior to the Track Record Period.

Income tax expenses

Our income tax expense decreased by RMB8.0 million from RMB71.4 million for the year ended December 31, 2021 to RMB63.4 million for the year ended December 31, 2022. The decrease was mainly due to our revenue decrease for the year ended December 31, 2022.

Our effective tax rate remained relatively stable at 24.1% and 26.0% for the years ended December 31, 2021 and 2022, respectively.

Profit for the year

As a result of the foregoing, our profit decreased by RMB43.7 million from RMB224.5 million for the year ended December 31, 2021 to RMB180.8 million for the year ended December 31, 2022, mainly because of the decrease in revenue together with net realized loss on Au (T+D) contracts.

Our net profit margin decreased by 0.2 percentage point from 1.3% for the year ended December 31, 2021 to 1.1% for the year ended December 31, 2022.

SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Net Current Assets

The following consolidated statement of financial position as of the dates indicated, respectively is extracted from the accountants' report set out in Appendix I to this document:

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
CURRENT ASSETS				
Inventories	2,048,989	1,688,925	2,169,633	2,016,500
Trade receivables	97,993	130,922	150,513	171,206
Prepayments, deposits and other receivables	278,742	261,921	399,406	404,722
Financial assets at fair value through profit or loss	6,011	—	—	—
Pledged/restricted deposits	569,476	369,555	528,795	444,102
Cash and cash equivalents	153,518	225,359	155,866	364,034
Total	**3,154,729**	**2,676,682**	**3,404,213**	**3,400,564**
CURRENT LIABILITIES				
Trade and bills payables	45,560	64,953	511,787	302,191
Other payables and accruals	117,258	122,987	139,142	182,303
Lease liabilities	12,028	9,600	7,711	11,276
Borrowings	1,336,920	829,627	790,041	1,070,379
Contract liabilities	27,215	39,044	42,173	72,887
Tax liabilities	1,849	12,296	24,963	13,390
Gold loans	486,998	394,143	502,508	413,627
Deferred income	132	132	41	34
Provision	210	—	—	—
Refund liabilities	50,995	41,448	32,943	23,615
Total	2,079,165	1,514,230	2,051,309	2,089,702
Net Current Assets	**1,075,564**	**1,162,452**	**1,352,904**	**1,310,862**

Our non-current assets included property, plant and equipment, right-of-use assets, investment properties, intangible assets, deferred tax assets, prepayments, deposits and other receivables and other non-current assets. Our current assets included inventories, trade receivables, prepayments, deposits and other receivables, financial assets at fair value through profit or loss, pledged/restricted deposits and cash and cash equivalents.

Our current liabilities mainly included trade and bills payables, other payables and accruals, lease liabilities, borrowings, tax liabilities, gold loans and refund liabilities. Our non-current liabilities included deferred tax liabilities, lease liabilities, refund liabilities and deferred income.

Our net current assets increased from RMB1,075.6 million as of December 31, 2021 to RMB1,162.5 million as of December 31, 2022 primarily due to an decrease in borrowings of RMB507.3 million as due to the inability to timely renew certain borrowings because of business disruption to banks caused by the pandemic and partially offset by a reduction in inventories of RMB360.1 million.

Our net current assets further increased to RMB1,352.9 million as of December 31, 2023 primarily due to (i) an increase in inventories of RMB480.7 million mainly due to an increase in our gold reserves to meet market demand, alongside an increase in gold prices in 2023, (ii) an increase in pledged/restricted deposits of RMB159.2 million for securing financing, and (iii) an increase in prepayments, deposits and other receivables of RMB137.5 million due to an increase in the right to returned goods assets, and partially offset by a significant increase in trade and bills payable of RMB446.8 million, primarily due to our adoption of settlements in bank acceptance bills for procurement of gold raw materials.

Our net current assets slightly decreased by RMB42.0 million to RMB1,310.9 million as of June 30, 2024, primarily attributable to (i) a decrease in inventories by RMB153.1 million due to the sales of our finished goods and (ii) an increase in borrowings by RMB280.3 million, and was partially offset by a decrease in gold loans by RMB88.9 million.

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

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

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	596,811	387,942	533,868	667,678
Work in progress	1,480	2,596	6,343	1,400
Finished goods(Note 1)	1,434,117	1,280,587	1,612,052	1,326,328
Goods in transit	3,325	6,164	7,272	9,489
Consignment processing materials(Note 2)	5,489	2,972	525	1,433
Consumables	7,767	8,664	9,573	10,172
	2,048,989	1,688,925	2,169,633	2,016,500

Note 1: Included in the finished goods related to consignment arrangements with two of our provincial-dealers for diamond inlaying products in the amount of RMB3.0 million, RMB1.7 million, RMB0.9 million and RMB0.8 million as of December 31, 2021, 2022 and 2023 and June 30, 2024, respectively.

Note 2: Included K-gold and other gold products that we commissioned third parties to process.

Our inventories mainly included raw materials, work in progress, finished goods, goods in transit, consigned processing materials and consumables.

Our inventories decreased by RMB360.0 million to RMB1,688.9 million as of December 31, 2022, mainly due to our Group's operation was affected by pandemic in the fourth quarter of 2022 and our reduced procurement, leading to a lower inventories balance.

Our inventories increased to RMB2,169.6 million as of December 31, 2023, mainly due to (i) an increase in the gold price throughout 2023, and (ii) an increase in our inventories balance to normal levels after the restrictions in place because of the pandemic was lifted in early 2023, as compared to 2022.

Our inventories decreased by RMB153.1 million to RMB2,016.5 million as of June 30, 2024, mainly due to a decrease in value of finished goods as inventories by RMB285.7 million due to a decrease in our actual production volume of gold jewellery products which was partially offset by an increase in gold price which led to an increase in the value of our raw materials as inventories by RMB133.8 million.

The following table sets forth the ageing analysis of our inventories as of the dates indicated:

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,959,098	1,551,779	2,095,496	1,933,408
1 to 2 years	39,677	84,649	48,085	59,365
Over 2 years	50,766	53,158	26,132	26,075
Provision	(552)	(661)	(80)	(2,348)
Total	**2,048,989**	**1,688,925**	**2,169,633**	**2,016,500**

Our jewellery production rate is generally in respond to market demand and inventory turnover so we generally do not have a significant amount of slow-moving or obsolete stock. Moreover, since our products are mostly made of gold, which possesses significant value. As such, write-downs usually only occur when the underlying value of the gold significantly deteriorates.

The following table sets forth a summary of average turnover days of inventories for the years or period indicated:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Average turnover days of inventories*(Note)*	42.7 days	45.6 days	36.8 days	40.8 days

Note: Average turnover days of inventories is derived from dividing the arithmetic mean of the opening and closing balances of inventories by our cost of sales in the respective year.

Our average inventories turnover days were 42.7 days, 45.6 days, 36.8 days and 40.8 days for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively.

Our average inventories turnover days typically range from one to two months, primarily as a result of our business model and the nature of our business as a gold jewellery manufacturer and retailer. Our inventories move from procurement, production, to marketing and sale of jewellery, which results in a higher inventories turnover days than what it would be if we were solely a jewellery retailer that does not engage in manufacturing.

Our average inventories turnover days were relatively stable and within the typical range from one to two months at 42.7 days, 45.6 days, 36.8 days and 40.8 days for the year ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024.

As of August 31, 2024, RMB1,744.8 million or 86.5% of our inventories outstanding as of June 30, 2024 were settled.

Property, plant and equipment

Our property, plant and equipment mainly represented building, leasehold improvement, construction in progress, machinery, transportation equipment, electronics equipment and other equipment. Our property, plant and equipment increased from RMB294.7 million as of December 31, 2021 to RMB364.1 million as of December 31, 2022, increased to RMB400.0 million as of December 31, 2023 due to investments in the construction of production and office facilities, which was transferred to buildings during the year ended December 31, 2023, and an increase in the carrying amount of machinery. Our property, plant and equipment decreased by RMB8.3 million to RMB391.7 million as of June 30, 2024 due to provision for depreciation. The increase in construction in progress was mainly due to the construction of the premises where our manufacturing base is located; whereas the increase in machineries was mainly for expansion of our business scale and increase in product varieties. It is our business strategies to expand and upgrade our production facility to maintain our competitive strengths, which enable us to produce latest trend of jewellery speedily, to increase output and to achieve cost savings.

As of December 31, 2021, 2022 and 2023 and as of June 30, 2024, property, plant and equipment with carrying amount of RMB41.3 million, RMB37.8 million, RMB205.5 million and RMB223.0 million, respectively, were pledged to banks as collaterals for our borrowings and gold loans. The substantial increase in pledged assets as collateral for 2023 and the six months ended June 30, 2024 was mainly due to the completion of construction in progress, which was then transferred to buildings and pledged to banks during the year.

Right-of-use assets

During the Track Record Period, we leased various lands, offices and retail stores for our operations. Lease contracts are entered into for fixed terms ranging from one month to 50 years, with the 50-year lease being the maximum term for the land use rights. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Our lease agreements do not contain any contingent rent nor any extension, termination option or purchase option for lessee.

Our right-of-use assets decreased from RMB63.1 million as of December 31, 2021 to RMB55.2 million as of December 31, 2022 due to termination of leases and depreciation charge, and to RMB52.8 million as of December 31, 2023 due to depreciation charges. As of June 30, 2024, our right-of-use asset increased by RMB6.4 million to RMB59.2 million due to us renewing the lease for an exhibition hall in Shenzhen.

The carrying amount of our right-of-use assets of leasehold lands remained stable at RMB40.4 million as of December 31, 2021, RMB39.5 million as of December 31, 2022, RMB38.6 million as of December 31, 2023 and RMB38.2 million as of June 30, 2024, respectively. As of December 31, 2021, 2022 and 2023 and June 30, 2024, the carrying amount of leasehold lands of RMB32.6 million, nil, RMB3.5 million and RMB3.5 million were pledged to banks as security for our Group's borrowings and gold loans.

The carrying amount of our right-of-use assets of leasehold properties decreased from RMB22.7 million as of December 31, 2021 to RMB15.7 million as of December 31, 2022, mainly due to depreciation charges of RMB10.5 million and termination of leases of RMB7.1 million, which was mainly in relation to a lease we did not renew for a property unit for an exhibition hall in Shenzhen, and we converted part of our rented office premises into an exhibition hall as a replacement. It then decreased to RMB14.2 million as of December 31, 2023, mainly due to depreciation charges of RMB8.7 million partially offset by the net addition of leased properties of RMB7.3 million. The carrying amount of our right-of-use assets of leasehold properties increased from RMB14.2 million as of December 31, 2023 to RMB21.1 million as of June 30, 2024, mainly due to us renewing the lease for an exhibition hall in Shenzhen.

Prepayments, deposits and other receivables

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

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Current:				
Other receivables				
— Deposits	4,392	4,497	5,599	6,604
— Payments on behalf of employee	930	1,152	1,310	1,310
— Others	466	1,823	2,265	4,037
Less: Allowance for credit losses	(1,424)	(1,814)	(2,827)	(3,083)
Total other receivables	4,364	5,658	6,347	8,868
Prepayment to suppliers	3,297	7,314	9,880	8,786
Prepayments for [REDACTED] and issue costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepaid EIT	30,265	11,548	35,634	36,962
Deductible input value-added tax ("**VAT**")	116,361	78,947	106,130	84,671
Right to returned goods asset	115,533	150,373	218,353	241,869
Deferred share issue costs for initial [REDACTED] of [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepaid advertising expenses	6,532	6,511	4,594	3,044
Prepaid interest on gold loans	1,643	841	1,661	2,329
Others	747	729	779	1,728
Total	**278,742**	**261,921**	**399,406**	**404,722**

Our prepayments, deposits and other receivables mainly represented our deductible input VAT and right to returned goods asset. Our deductible input VAT was VAT mainly in relation to procurement of property, plant and equipment. Our right to returned goods asset represented the gold lending arrangement to our customers to replenish their inventories when they have urgent needs and the return policy of our diamond inlaying jewellery products. For gold lending, upon lending gold to our customers, the amount of the respective inventory would be transferred to right to returned goods asset on our management account. If the customer choose to procure all or part of such gold products, our customers will settle with us based on the prevailing gold price at settlement date, and we will recognize revenue accordingly and the corresponding amount in right to returned goods asset will be recognized as cost of sales. If the customer choose to return all or part of the gold products to us, the previously recognized right to returned goods asset will be reversed into inventories. For details of gold lending arrangement, see "Business — Sales and Distribution Channels — Franchisees and provincial-dealers management — Exhibition halls, gold lending and logistics arrangement".

Our current prepayments, deposits and other receivables decreased by RMB16.8 million to RMB261.9 million as of December 31, 2022. The decrease was mainly due to a decrease in deductible input VAT of RMB37.4 million and a decrease in prepaid EIT of RMB18.7 million, and partially offset by an increase in right to returned good assets in relation to gold lent to our customers to replenish inventory when they have urgent needs.

It then increased by RMB137.5 million to RMB399.4 million as of December 31, 2023 due to an increase in prepaid EIT of RMB24.1 million, the increase in deductible input VAT of RMB27.2 million, as well as an increase in the right to returned goods assets of RMB68.0 million in relation to the increase in gold prices and the increase of gold lent to franchisees or provincial-dealers to replenish their products for display.

As of June 30, 2024, our current prepayments, deposits and other receivables amounted to RMB404.7 million, representing an increase of RMB5.3 million or 1.3% when compared to that as of December 31, 2023. Such increase was primarily attributable to (i) an increase in the current portion of the right to returned goods asset by RMB23.5 million mainly as a result of an increase in gold price and increase in volume of gold lending and (ii) an increase in deferred expenses related to the [REDACTED] in the sum of RMB1.2 million, and partially offset by a decrease in deductible input VAT by RMB21.5 million due to a decrease in our procurement volume.

Non-current prepayments, deposits and other receivables

The following table sets forth the breakdown of our non-current prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB’000	RMB’000	RMB’000	RMB’000
Non-current:				
Other receivables				
— Deposits	5,336	4,455	4,187	4,781
Less: Allowance for credit losses	(1,378)	(1,358)	(634)	(1,040)
Total other receivables	3,958	3,097	3,553	3,741
Prepayment for acquisition of non-current assets	12,650	9,838	10,307	14,936
Right to returned goods asset	42,321	34,068	27,642	18,067
Total	**58,929**	**47,003**	**41,502**	**36,744**

Our non-current prepayments, deposits and other receivables decreased by RMB11.9 million from RMB58.9 million to RMB47.0 million as of December 31, 2022 mainly due to a decrease in right to returned goods assets of RMB8.3 million. It then further decreased to RMB41.5 million as of December 31, 2023, mainly due to a decrease in the right to non-current returned goods asset. The right to returned goods assets primarily represented the accounting treatment in relation to our sales policy granted to certain provincial-dealers or franchisees of accepting diamond inlaying jewellery product exchange a period of five years. The prepayment for acquisition of non-current assets were mainly prepayment made for the purchase of property, plant and equipment. As of June 30, 2024, our non-current prepayments, deposits and other receivables decreased by RMB4.8 million, which was mainly due to a decrease in the non-current portion of the right to returned goods asset as a result of a decrease in provision made for return of diamond inlaying products, and partially offset by the increase in prepayment for acquisition of non-current assets by RMB4.6 million due to the prepayment made for procurement of new financial management software system.

As of August 31, 2024, RMB241.2 million or 54.6% of our prepayments, deposits and other receivables outstanding as of June 30, 2024 were settled.

Trade receivables

Our trade receivables primarily represented receivables from our customers.

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

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	144,806	166,619	186,885	207,154
Less: allowance for credit losses	(46,813)	(35,697)	(36,372)	(35,948)
Total	**97,993**	**130,922**	**150,513**	**171,206**

Our net trade receivables increased from RMB98.0 million to RMB130.9 million as of December 31, 2022. It then increased to RMB150.5 million as of December 31, 2023 and further increased to RMB171.2 million as of June 30, 2024. The increase in trade receivables from 2021 to 2023 and as of June 30, 2024 was primarily due to the increase in the amount of sales to our customers.

In practice, when purchasing our products some of our franchisee choose to pay on spot or pay in advance before the delivery of the products for securing the gold price of the transaction with us. Our Group primarily allows a credit period around three to 90 days, except for certain credit worthy customers, where the credit periods are extended to a longer period. Our Group seeks to maintain strict control over our outstanding receivables. Overdue balances are reviewed regularly by senior management. Our Group does not hold any collateral or other credit enhancements over our trade receivable balances. Trade receivables are non-interest-bearing. See note 24 to the historical financial information in the Accountants' Report set out in Appendix I to this document for details.

The following is an aging analysis of trade receivables net of allowance for credit losses presented based on dates of delivery or rendering of services at the dates indicated.

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	86,424	111,332	147,878	163,934
90–180 days	7,071	13,191	2,456	6,582
180 days–1 year	4,398	6,144	179	690
1–2 years	—	255	—	—
Total	**97,993**	**130,922**	**150,513**	**171,206**

As of December 31, 2021, 2022 and 2023 and June 30, 2024, an aggregate carrying amount of RMB4.8 million, RMB12.2 million, RMB3.0 million and RMB9.3 million respectively which were past due as of the reporting dates. Out of the past due balances, RMB3.4 million, RMB8.0 million, RMB2.4 million and RMB2.8 million has been past due less than 90 days, RMB1.4 million, RMB4.2 million, RMB0.6 million and RMB6.5 million respectively has been past due 90 days or more. Those past due were not considered as in default as there has not been a significant change in credit quality and the amounts were considered recoverable.

Our Group performs impairment analysis at each year end or period end date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the year end or period end date about past events, current conditions and forecasts of future economic conditions. As of January 1, 2021, we recorded a specific provision of RMB34.4 million for our trade receivables under ECL model, mainly due to financial difficulties of a prior-Track Record Period provincial-dealer. As of January 1, 2021, the total amount due from this provincial-dealer was RMB32.6 million, for which we made provision of RMB25.6 million. We initiated legal claims as plaintiff for recovery of such outstanding amount. As we managed to collect certain amount from this provincial-dealer through legal actions, we reversed our provision of RMB1.1 million, RMB0.5 million and nil for the years ended December 31, 2021, 2022 and 2023, respectively. As of December 31, 2023, the amount due from this provincial-dealer was RMB24.0 million, which had been fully impaired. As of the Latest Practicable Date, our claims and legal proceedings against this provincial-dealer had been awarded in our favor but the judgment debt had not been fully enforced. Details of the impairment analysis are set out in notes 11 and 41 of the Accountants' Report in Appendix I to this document.

The following table sets forth a summary of average turnover days of trade receivables for the years or period indicated:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Average turnover days of trade receivables*(Note)*	2.0 days	2.7 days	2.5 days	2.9 days

Note: Average turnover days of trade receivables is derived from dividing the arithmetic mean of the opening and closing balances of trade receivables by our total revenue in the respective year.

Our average turnover days of trade receivables was 2.0 days, 2.7 days, 2.5 days and 2.9 days for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, respectively, which was in line with our credit policy and within the trade receivable turnover days of the industry.

The increase of our average turnover days of trade receivables for the year ended December 31, 2022 was mainly due to an increase in our net trade receivables from RMB98.0 million as of December 31, 2021 to RMB130.9 million as of December 31, 2022, mainly due to slower collection of trade receivables due to pandemic reason. The average turnover days of trade receivables remained relatively stable for the year ended December 31, 2023 and the six months ended June 30, 2024.

As of August 31, 2024, RMB119.4 million or 69.7% of our trade receivables outstanding as of June 30, 2024 were settled.

Pledged/restricted deposits

As of December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, pledged/restricted deposits included deposits pledged to banks to secure banking facilities, security deposits for issuance of notes payable, security deposits for gold loans, security deposits for gold trading accounts and others. The balances carried interest rates ranging from nil to 2.25%, nil to 2.25%, nil to 2.25% and nil to 2.25% per annum, respectively. Our pledged/restricted deposits were RMB569.5 million, RMB369.6 million, RMB528.8 million and RMB444.1 million as of December 31, 2021, 2022 and 2023 and June 30, 2024, respectively. The decrease between 2021 and 2022 was mainly attributable to the reduction of our use of gold loans, while the rise as of December 31, 2023 was mainly for the purpose of securing our borrowings and gold loans for our business operation use. The decrease in our pledged/restricted deposits as of June 30, 2024, compared to December 31, 2023, was due to the reduction in bank acceptance bill deposits.

Trade and bills payables

Our trade payables increased from RMB45.6 million as of December 31, 2021 to RMB65.0 million as of December 31, 2022 mainly due to the growth of our business for the year ended December 31, 2022. We recorded trade payables of RMB41.8 million as of December 31, 2023. We recorded a decrease in our trade payables by RMB19.6 million from RMB41.8 million as of December 31, 2023 to RMB22.2 million as of June 30, 2024. Such changes were attributable to the payment made for an installment of the construction fee for our new office building.

Our trade payables primarily relate to purchase of raw materials and finished goods. Trade payables are non-interest bearing.

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	—	—	470,000	280,000
Trade payables	45,560	64,953	41,787	22,191
Total	**45,560**	**64,953**	**511,787**	**302,191**

Our bills payables amounted to RMB280.0 million as of June 30, 2024. Our bills payables were in relation to bank bills that were applied to settle with an independent third-party supplier for our procurement of gold materials from it. All bills payable by our Group were with a maturity period of less than one year.

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

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	44,353	64,042	40,490	19,098
1 to 2 years	770	301	914	2,683
2 to 3 years	63	452	170	101
Over 3 years	374	158	213	309
Total	**45,560**	**64,953**	**41,787**	**22,191**

The following table sets forth a summary of average turnover days of trade and bills payables for the years or period indicated:

	Year ended December 31,			Six months ended June 30,
	2021	2022	2023	2024
Average turnover days of trade and bills payables[(Note)]	0.9 days	1.3 days	5.5 days	7.9 days

Note: Average turnover days of trade and bills payables is derived from dividing the arithmetic mean of the opening and closing balances of trade and bills payables by cost of sales in the respective year.

Our procurement were mainly from Shanghai Gold Exchange during the Track Record Period, Shanghai Gold Exchange only accepts settlement with cash in specified account, so we have a low average turnover days of trade and bills payables. Our average turnover days of trade and bills payables were stable at 0.9 days and 1.3 days for the years ended December 31, 2021, 2022, respectively, which were in line with our normal settlement days and remained stable. We recorded trade and bills payable turnover days of 5.5 days for the year ended December 31, 2023, which were mainly in relation to bank bills of RMB470.0 million that were applied to settle with an independent third-party supplier for our procurement of gold materials from it. Our trade and bills payable turnover days for the six months ended June 30, 2024 were longer than those for the same period in 2023. In 2022, we did not use bank bills to finance our gold procurement, resulting in a low beginning balance for 2023. However, starting in 2023, we began procuring gold through trade and bills payable from an independent third-party supplier. As a result, we had a larger beginning balance of bank bills payables as of January 1, 2024. This difference in the beginning balances between the two periods contributed to the longer trade and bills payable turnover days observed in the first half of 2024. Excluding bills payable from the calculation, the trade payables turnover days were 1.0 days and 0.6 days for the year ended December 31, 2023 and six months ended June 30, 2024, respectively, which were stable and in line with the trade payables turnover days of 0.9 days and 1.3 days for the years ended December 31, 2021 and 2022, respectively.

As of August 31, 2024, RMB169.1 million or 56.0% of our trade and bills payables outstanding as of June 30, 2024 were settled.

Refund liabilities

	As of December 31,			As of June 30,
	2021	**2022**	**2023**	**2024**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Refund liabilities	110,746	89,376	71,327	49,178
Analysed for reporting purposes as:				
Non-current liabilities	59,751	47,928	38,384	25,563
Current liabilities	50,995	41,448	32,943	23,615
Total	**110,746**	**89,376**	**71,327**	**49,178**

Under our standard contract terms, except for closures of stores, franchisees have no right to return any goods after its acceptance of the products but have a right to exchange unsold diamond inlaying jewellery within five years. Our Group estimate the percentage of exchange on a portfolio level with reference to historical pattern, in particular, historical product exchange rates in previous years. Revenue is recognized for sales which are considered highly probable that a significant reversal in the cumulative revenue recognized will not occur.

In addition, the following table sets forth the movement of refund liabilities during the Track Record Period:

	RMB'000
As of January 1, 2021	**108,309**
Provided for the year	46,795
Utilization of provision for the year	(44,358)
As of December 31, 2021	**110,746**
Provided for the year	32,617
Utilization of provision for the year	(53,987)
As of December 31, 2022	**89,376**
Provided for the year	22,913
Utilization of provision for the year	(40,962)
As of December 31, 2023	**71,327**
Provided for the year	7,905
Utilization of provision for the year	(30,054)
As of June 30, 2024	**49,178**

We estimate the percentage of exchanges on a portfolio basis, referencing historical patterns, particularly product exchange rates from previous years. Revenue is recognized for sales when it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. Conversely, if the goods are expected to be exchanged, a refund liability, instead of revenue, is recognized. Simultaneously, we recognize a right to returned goods asset, measured at the carrying amount of the inventories sold less any expected costs to recover the goods, with a corresponding adjustment to the cost of sales.

On the other hand, if goods are expected to be returned or exchanged, a refund liability, instead of revenue, is recognized, and at the same time, we will recognize a right to returned goods asset, which is measured at the carrying amount of the inventory sold less any expected costs to recover the goods.

Other payables and accruals

The following table sets forth the breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables				
— deposits received	78,144	78,703	84,329	97,089
— accrued expenses	2,000	4,392	5,526	2,758
— accrued [REDACTED] and issue costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
— rent and property fees payable	3	365	—	—
— others	1,062	1,150	1,893	3,610
Total other payables	81,209	84,610	92,277	107,823
Rent received in advance	2,756	3,274	2,693	1,891
Other tax payable	8,205	13,734	16,898	50,590
Salaries, welfare and bonus payable	25,088	21,369	27,274	21,999
Total	**117,258**	**122,987**	**139,142**	**182,303**

Our other payables and accruals mainly represented deposits received, salaries, welfare and bonus payable, accrued expenses, and other tax payable. Our other payables and accruals increased from RMB117.3 million as of December 31, 2021 to RMB123.0 million as of December 31, 2022. It was mainly due to an increase in other tax payable as a result of contract liabilities which we received advance payments on sales which had not been recognized as revenue. It further increased by RMB16.2 million to RMB139.1 million as of December 31, 2023, primarily due to an increase in other tax payable and an increase in salaries, welfare and bonus payable. Our other payables and accruals further increased by RMB43.2 million to RMB182.3 million as of June 30, 2024, which was primarily attributable to (i) an increase in deposits received in the sum of RMB12.8 million and (ii) an increase in other tax payable by RMB33.7 million.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss comprised bank financial products and structured products incurred during the year as of December 31, 2021. The following table sets forth a summary of our financial assets at fair value through profit or loss as of the dates indicated:

	As of December 31,			Six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Financial products	**6,011**	**—**	**—**	**—**	**—**

Our financial assets at fair value through profit or loss were RMB6.0 million, nil, nil and nil as of December 31, 2021, 2022 and 2023 and June 30, 2024, respectively. The financial products were for investment yield enhancement purpose and were classified as financial assets at FVTPL as their contractual cash flows are not solely payments of principal and interest. As of December 31, 2021, the financial products were issued by banks in the PRC. The principals and returns of the financial products are not guaranteed and the expected rates of return of the structured deposits are linked to the fluctuation of London Interbank Offered Rate ("**LIBOR**").

As of December 31, 2022 and 2023 and June 30, 2024, we ceased to maintain any structured deposits and financial products.

Contract liabilities

A contract liability represents our 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 contract liabilities were expected to be recognized as revenue in the next 12 months. The contract liabilities arose when customers made advance payment to us for their purchases, which the customers can fix the purchase price of the gold jewellery to be purchased in advance. Our contract liabilities increased from RMB27.2 million as of December 31, 2021 to RMB39.0 million as of December 31, 2022, further increased to RMB42.2 million as of December 31, 2023 and increased to RMB72.9 million as of June 30, 2024. The increase in contract liabilities during the Track Record Period was primarily due to the increase in advance payments made by customers.

As of August 31, 2024, RMB45.3 million or 62.1% of our contract liabilities outstanding as of June 30, 2024 were recognised as revenue.

CASH FLOWS

Our use of cash primarily related to operating activities and capital expenditure. We have historically financed our operations primarily through a consolidation of cash flow generated from our operations and bank borrowings.

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

	Year ended December 31,			Six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Operating cash flows before movements in working capital	413,775	335,055	436,444	180,668	110,327
(Increase)/decrease in inventories	(310,623)	258,296	(392,078)	(428,498)	84,691
(Increase)/decrease in pledged/ restricted deposits	(28,078)	389	(65,868)	(63,751)	(10,269)
(Increase)/decrease in trade receivables	(21,955)	(19,050)	(21,937)	9,449	(20,964)
(Increase)/decrease in prepayments, deposits and other receivables	10,251	17,219	(91,653)	(92,170)	9,289
(Decrease)/increase in refund liabilities	2,438	(21,370)	(18,049)	574	(22,149)
Increase/(decrease) in provision	20	(210)	—	—	—
Increase/(decrease) in trade and bills payables	32,616	7,987	471,665	268,638	(196,760)
(Decrease)/increase in other payables and accruals	(8,181)	(17,958)	16,137	5,158	40,760
Increase in contract liabilities	20,137	11,829	3,129	72,710	30,714
Cash (used in)/generated from operations	110,400	572,187	337,790	(47,222)	25,639
Income taxes paid	(97,903)	(32,568)	(92,332)	(9,362)	(30,379)
Interest paid for gold loans	(19,948)	(18,526)	(17,272)	(7,130)	(9,646)
Interest received	1,577	765	1,490	689	701

	Year ended December 31,			Six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net cash (used in)/from operating activities	(5,935)	522,670	229,676	(63,025)	(13,685)
Net cash (used in)/from investing activities	15,779	136,741	(190,132)	(268,836)	65,028
Net cash from/(used in) financing activities	86,526	(587,620)	(108,931)	273,566	156,733
Net (decrease)/increase in cash and cash equivalents	96,370	71,791	(69,387)	(58,295)	208,076
Cash and cash equivalents at beginning of the year	57,151	153,518	225,359	225,359	155,866
Effect of foreign exchange rate changes	(3)	50	(106)	(47)	92
Cash and cash equivalents at end of the year	**153,518**	**225,359**	**155,866**	**167,017**	**364,034**

Net cash (used in)/from operating activities

Net cash used in operating activities for the six months ended June 30, 2024 was RMB13.7 million, primarily due to profit before tax of RMB66.9 million, as adjusted for certain non-cash and/or non-operating items (i) finance costs of RMB35.4 million, (ii) depreciation of property, plant and equipment of RMB22.1 million, (iii) net unrealized gain on gold loans of RMB20.4 million, which in turn, was a result of a decrease in gold price in June 2024, and (iv) negative changes in working capital. Adjustments for changes in working capital primarily included (i) decrease in trade and bills payables of RMB196.8 million, (ii) decrease in refund liabilities of RMB22.1 million, (iii) increase in trade receivables of RMB21.0 million, and partially offset by (iv) decrease in inventories of RMB84.7 million, (v) increase in other payables and accruals of RMB40.8 million and (vi) increase in contract liabilities of RMB30.7 million. We recorded net cash used in operating activities of RMB13.7 million for the six months ended June 30, 2024. Such result was largely attributable to decrease in trade and bills payables of RMB196.8 million, which in large part was in relation to our settling bills we applied to procure raw materials. Going forward, to improve the net cash position of our operating activities, we seek to (i) schedule payments to suppliers and utilize financial instruments such as bills, and (ii) continue to optimize our inventory level. We strive to avoid cash outflows required to settle payables and/or procure inventory that materially exceeds cash inflow from operating activities. We believe such measures, in turn, will better ensure a net cash inflow from operating activities.

Net cash from operating activities was RMB229.7 million in 2023, primarily due to profit before tax of RMB305.1 million, as adjusted for certain non-cash and/or non-operating items (i) net unrealized loss on gold loans of RMB19.7 million, which in turn, was a result of an overall increase of gold price in 2023, (ii) finance costs of RMB63.1 million, (iii) depreciation of property, plant and equipment of RMB37.5 million, and (iv) negative changes in working capital. Adjustments for changes in working capital primarily included (i) increase in pledged/restricted deposits of RMB65.9 million, (ii) increase in inventories of RMB392.1 million, (iii) increase in prepayments, deposits and other receivables of RMB91.7 million, and partially offset by (iv) increase in trade and bills payables of RMB471.7 million and (v) increase in other payables and accruals of RMB16.1 million.

Net cash generated from operating activities was RMB522.7 million in 2022, primarily due to profit before tax of RMB244.2 million, as adjusted for certain non-cash and/or non-operating items (i) net unrealized loss on gold loans of RMB8.9 million, which in turn, was a result of the continuous rise in gold prices, (ii) finance costs of RMB56.9 million, (iii) depreciation of property, plant and equipment of RMB27.8 million, (iv) depreciation of right-of-use assets of RMB11.4 million, (v) net reversal of impairment losses under expected credit loss model of RMB10.1 million and (vi) changes in working capital. Adjustments for changes in working capital primarily included (i) decrease in inventories of RMB258.3 million, (ii) decrease in prepayments, deposits and other receivables of RMB17.2 million, and partially offset by (iii) decrease in refund liabilities of RMB21.4 million, (iv) increase in trade receivables of RMB19.1 million and (v) decrease in other payables and accruals of RMB18.0 million.

Net cash used in operating activities was RMB5.9 million in 2021, primarily due to profit before tax of RMB295.9 million, as adjusted for certain non-cash and/or non-operating items (i) net unrealized loss on gold loans of RMB1.0 million, which in turn, was a result of market gold price effect on the outstanding gold loan balance on hand as of December 31, 2021, (ii) finance costs of RMB64.2 million, (iii) depreciation of property, plant and equipment of RMB27.8 million, and (iv) negative changes in working capital. Adjustments for changes in working capital primarily included (i) increase in inventories of RMB310.6 million, (ii) increase in pledged/restricted deposits RMB28.1 million, (iii) increase in trade receivables of RMB22.0 million and partially offset by (iv) increase in trade and bills payables of RMB32.6 million, (v) decrease in prepayments, deposits and others receivables of RMB10.3 million and (vi) increase in contract liabilities of RMB20.1 million.

During the Track Record Period, having considered that our operating cash flows before movements in working capital were RMB413.8 million, RMB335.1 million, RMB436.4 million and RMB110.3 million for the three years ended December 31, 2023 and the six months ended June 30, 2024, respectively, which were relatively stable, our net operating cash outflows during the Track Record Period was mainly attributable to changes in the volume of our gold inventories and the upward trend in the market price of gold.

At the end of each reporting period during the Track Record Period, our inventory balance accounted for over 50% of the total assets, and gold inventories (excluding K-gold) accounted for more than 80% of the total inventory balance. Changes in inventory balances were mainly affected by gold price fluctuations and our inventory management strategies on the volume of gold raw materials we were to hold for our production needs for the relevant year. Thus, an increase in gold prices and the volume of gold inventories contributes to an operating cash outflow.

Affected by the pandemic in the fourth quarter of 2022, we took the initiative to reduce inventory levels. The balance of inventories decreased from RMB2,049.0 million as of December 31, 2021 to RMB1,688.9 million as of December 31, 2022. As a result of the inventories decrease during 2022, we recorded net cash inflow from operating activities.

In 2023, due to a more positive business outlook, we implemented inventory management strategies for scaling up our production. Such decision coupled with increase in gold price led to higher revenue but with more cash spent on procurement of gold raw materials, and as a result, we have reverted to having net operating activities cash inflow.

However, since gold inventories are highly liquid and valuable, our Directors are of the view that our Group's operating conditions remain healthy and stable and are not subject to any material risks on cashflow and liquidity.

Net cash generated from/(used in) investing activities

Net cash from investing activities was RMB65.0 million for the six months ended June 30, 2024, primarily due to (i) withdrawal of pledged/restricted deposits of RMB265.0 million, and (ii) proceeds from disposal of financial products and structured deposits of RMB6.0 million, partially offset by (i) placement of pledged/restricted deposits of RMB170.0 million, (ii) purchase of property, plant and equipment of RMB24.8 million and (iii) purchase of intangible assets of RMB6.7 million.

Net cash used in investing activities was RMB190.1 million in 2023, primarily due to (i) placement of pledged/restricted deposits of RMB765.0 million and (ii) purchase of plant, property and equipment of RMB99.7 million, partially offset by withdrawal of pledged/restricted deposits of RMB671.0 million.

Net cash generated from investing activities was RMB136.7 million in 2022, primarily due to (i) placement of pledged/restricted deposits of RMB380.0 million, (ii) purchase of financial products and structured deposits of RMB107.1 million and (iii) purchase of plant, property and equipment of RMB73.7 million, partially offset by (i) withdrawal of pledged/restricted deposits of RMB580.5 million and (ii) proceeds from disposal of financial products and structured deposits of RMB113.2 million.

Net cash generated from investing activities was RMB15.8 million in 2021, primarily due to (i) purchase of financial products and structured deposits of RMB997.4 million and (ii) placement of pledged/restricted deposits of RMB476.1 million, partially offset by (i) proceeds from disposal of financial products and structured deposits of RMB1,074.0 million and (ii) withdrawal of pledged/restricted deposits of RMB485.1 million.

Net cash from/(used in) financing activities

Net cash from financing activities was RMB156.7 million for the six months ended June 30, 2024, primarily consisting of (i) proceeds from borrowings of RMB904.3 million, and was partially offset by (i) repayments of borrowings of RMB623.7 million, (ii) dividends paid to shareholders of RMB91.6 million, and (iii) interest paid of RMB26.0 million.

Net cash used in financing activities was RMB108.9 million in 2023, primarily consisting of repayment of borrowings of RMB1,465.8 million, and was partially offset by (i) proceeds from borrowings of RMB1,424.7 million and (ii) interest paid of RMB44.4 million.

Net cash used in financing activities was RMB587.6 million in 2022, primarily consisting of (i) repayment of borrowings of RMB1,642.5 million, (ii) dividend distribution of RMB78.7 million and (iii) interest paid of RMB39.1 million, and was partially offset by (i) proceeds borrowings of RMB1,136.0 million and (ii) [REDACTED] from issue of shares of RMB[REDACTED] million, which represented [REDACTED].

Net cash from financing activities was RMB86.5 million in 2021, primarily consisting of (i) repayment of borrowings of RMB1,385.0 million and (ii) interest paid of RMB43.5 million, and was partially offset by proceeds of borrowings of RMB1,525.5 million.

WORKING CAPITAL SUFFICIENCY

Our Directors confirm that, taking into consideration the financial resources available to us, which is primarily our internal resources, our banking facilities and the estimated [REDACTED] from the [REDACTED], we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this document.

Our Directors confirm that we had no material defaults in payment of trade and non-trade payables and borrowings, or breaches of covenants during the Track Record Period and up to the Latest Practicable Date.

Our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in "Future Plans and [REDACTED]" in the document.

CAPITAL EXPENDITURES

During the Track Record Period, our Group incurred capital expenditures of RMB73.5 million, RMB75.5 million, RMB101.1 million and RMB31.5 million for the years ended December 31, 2021, 2022 and 2023 and for the six months ended June 30, 2024, respectively. Our capital expenditures comprised of purchase of property, plant and equipment, purchases of intangible assets and payment for leasehold lands, where the majority of which was related to purchase of property, plant and equipment for upgrading our production facility in Shandong, PRC.

We have an upgrade and expansion plan of our production facility initiated in 2019 which estimated to require a total capital expenditure budget of RMB[REDACTED] million. See the sections headed "Future Plans and [REDACTED]", "Business — Production Expansion Plan" and "Risk Factors — We expect to incur additional capital expenditure and depreciation expenses associated with the expansion of our production facilities" for further details.

CAPITAL COMMITMENTS

As of December 31, 2021, 2022 and 2023 and June 30, 2024, our Group incurred capital commitments of RMB12.1 million, RMB8.8 million, RMB8.3 million and RMB10.0 million.

Details of our Group's capital commitments are disclosed in note 40 to the historical financial information in the Accountants' Report in Appendix I to this document.

INDEBTEDNESS

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

	As of December 31,			As of June 30,	As of August 31,
	2021	2022	2023	2024	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Borrowings	1,336,920	829,627	790,041	1,070,379	1,138,799
Gold loans	486,998	394,143	502,508	413,627	513,051
Lease liabilities	28,204	18,223	15,992	23,000	21,533
Total	**1,852,122**	**1,241,993**	**1,308,541**	**1,507,006**	**1,673,383**

As of the latest practicable date for the purpose of this indebtedness statement, being August 31, 2024, our Group had outstanding indebtedness representing bank borrowings of RMB1,138.8 million, gold loans of RMB513.1 million and lease liabilities of RMB21.5 million. As of August 31, 2024, we had available banking facilities of RMB1,769.0 million, of which RMB31.4 million was unutilized.

Bank Borrowings

Our bank borrowings consist of bank borrowings and bank borrowings relating to bills discounted with recourse. Our bank borrowings were RMB1,336.9 million, RMB829.6 million, RMB790.0 million, RMB1,070.4 million and RMB1,138.8 million as of December 31, 2021, 2022 and 2023, June 30, 2024 and August 31, 2024, respectively. For the year ended December 31, 2022, we experienced a decrease in borrowings due to the inability to timely renew certain borrowings when there was business disruption to banks caused by the pandemic. For the year ended December 31, 2023 and for the six months ended June 30, 2024, we have utilized more bills to pay for the procurement of gold raw materials.

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

	As of December 31,			As of June 30,	As of August 31,
	2021	2022	2023	2024	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Guaranteed and secured *(notes i & ii)*	1,168,178	579,356	569,820	588,734	798,947
Unguaranteed and secured *(note i)*	48,584	—	29,981	308,869	250,745
Guaranteed and unsecured *(note ii)*	120,158	250,271	190,240	172,776	89,107
	1,336,920	829,627	790,041	1,070,379	1,138,799

Notes:

i. The secured borrowings were secured by the pledge of certain bank deposits, property, plant and equipment, right-of-use assets, investment properties, inventories and/or trade receivables.

ii. The guaranteed bank borrowings and other borrowings were guaranteed by the controlling shareholders of the Company, Mr. Wang Zhongshan, Ms. Zhang Xiuqin and/or Mr. Wang Guoxin (as at December 31, 2021 only), and certain subsidiaries of the Group. For further details, please refer to the section headed "Relationship with Our Controlling Shareholder — Financial Independence".

Our carrying amounts of gold loans were RMB487.0 million, RMB394.1 million, RMB502.5 million, RMB413.6 million and RMB513.1 million as of December 31, 2021, 2022 and 2023 and June 30, 2024 and August 31, 2024, respectively. During 2022, our Group experienced a decline in the utilization of gold loans, primarily driven by the implementation of more stringent conditions imposed by banks on obtaining gold loans. This shift can be attributed to the internal policies of banks, which aimed to restrict the use of gold loans. As a result, our Group had temporarily adjusted our approach and reduced our utilization of gold loans accordingly. For the year ended December 31, 2023 and for the six months ended June 30, 2024, we have utilized more bills to pay for the procurement of gold raw materials.

During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any difficulty in obtaining banking facilities. Our banking facilities were secured by certain bank deposits, property, plant and equipment, right-of-use assets or investment properties. All personal guarantees provided by our de facto controllers, Mr. Wang Zhongshan and Ms. Zhang Xiuqin for our Group's indebtedness will be released upon [REDACTED], and will be released and replaced with guarantee/mortgage to be provided by our Company and/or members of our Group.

Save as disclosed above, as of August 31, 2024, being the latest practicable date for the purpose of the indebtedness statement, we did not have any banking facilities, outstanding loan capital, debt securities issued or agreed to be issued, bank overdrafts or other similar indebtedness, debentures, mortgages, charges or loans, or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities, or any covenant in connection therewith on a consolidated basis.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there were (i) no material covenants and (ii) no breaches of covenant related to any of our outstanding debt. In addition, there have been no material changes in the indebtedness since August 31, 2024 and up to the date of the Document.

Lease liabilities

At the commencement date of a lease, our Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, we use the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. We had lease liabilities of RMB28.2 million, RMB18.2 million, RMB16.0 million, RMB23.0 million and RMB21.5 million as of December 31, 2021, 2022 and 2023, June 30, 2024 and August 31, 2024 respectively. The decrease in lease liabilities from 2021 to 2023 were mainly due to the lapse of lease terms of properties leased by us, while the increase in lease liabilities for the six months ended June 30, 2024 was attributable to our renewing the lease for an exhibition hall in Shenzhen. Our lease liabilities decreased by RMB1.5 million to RMB21.5 million as of August 31, 2024, such decrease was primarily due to lease payments made in accordance with payment schedule in relevant lease agreements.

The following table sets out the carrying amounts of our lease liabilities as at the dates indicated:

	As of December 31,			As of June 30,	As of August 31,
	2021	2022	2023	2024	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Lease liabilities payable:					
Within one year	12,028	9,600	7,711	11,276	11,169
Within a period of more than one year but not exceeding two years	10,799	4,564	5,692	8,247	7,727
Within a period of more than two years but not exceeding five years	5,377	4,059	2,589	3,477	2,637
	28,204	18,223	15,992	23,000	21,533
Analysed as:					
Amounts due for settlement within one year shown under current liabilities	12,028	9,600	7,711	11,276	11,169
Amounts due for settlement after one year shown under non-current liabilities	16,176	8,623	8,281	11,724	10,364

The lease liabilities of approximately RMB28.2 million, RMB17.0 million, RMB16.0 million, RMB23.0 million and RMB21.5 million were secured by the rental deposits of approximately RMB2.7 million, RMB1.9 million, RMB2.4 million, RMB2.2 million and RMB2.2 million, respectively as of December 31, 2021, 2022 and 2023 and June 30, 2024 and August 31, 2024. The incremental borrowing rates applied to lease liabilities range from 5.22% to 5.88% for each of the three years ended December 31, 2021, 2022 and 2023, from 4.49% to 5.88% for the six months ended June 30, 2024.

Interest-bearing bank borrowings

Our interest-bearing bank borrowings amounted to RMB1,336.9 million, RMB829.6 million, RMB790.0 million and RMB1,070.4 million as of December 31, 2021, 2022, 2023 and June 30, 2024, respectively. We experienced a decrease in interest-bearing bank borrowings in the year ended December 31, 2022 due to inability to renew bank borrowings relating to bills discounted with recourse in time due to limited operation of banks during the pandemic. All of our interest-bearing bank borrowings are fixed-rate borrowings repayable within one year and shown under current liabilities.

As of December 31, 2021, 2022 and 2023, June 30, 2024, our interest-bearing bank borrowings carry interest at 1.78% to 5.83%, 2.08% to 5.83%, 3.60% to 5.51%, 3.25% to 7.92% per annum, respectively.

Gold loans

	As of December 31,			As of June 30,	As of August 31,
	2021	2022	2023	2024	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Gold loans	486,998	394,143	502,508	413,627	513,051

Our gold loans amounted to RMB487.0 million, RMB394.1 million, RMB502.5 million, RMB413.6 million and RMB513.1 million as of December 31, 2021, 2022 and 2023, June 30, 2024 and August 31, 2024, respectively.

Our Group borrows gold from commercial banks for 3 months to 12 months and pays a fixed fee to bank for the duration of the contract based on the value of gold at inception and relevant interest rates at inception. Fixed fees presented as interest rates, were 2.1% to 4.3%, 2.6% to 4.4%, 3.1% to 5.5% and 3.5% to 4.7% during the Track Record Period. At maturity, our Group is obliged to deliver gold of the same type, quantity and quality to bank. Our Group does not have an option to settle its obligation in cash. Gold loans representing the obligation to deliver gold are classified as liabilities at FVTPL at initial recognition.

During the Track Record Period, the gold loans were secured by property, plant and equipment, right-of-use assets or investment properties and guaranteed by Mr. Wang Zhongshan, Ms. Zhang Xiuqin or Mr. Wang Guoxin, the Controlling Shareholders.

Contingent liabilities

As of August 31, 2024, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

Our Directors confirm that there has been no material off-balance sheet arrangement since June 30, 2024 to the date of this document.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in note 44 to the historical financial information in the Accountants' Report in Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favorable to our Group than those available to independent third parties and were fair and reasonable and in the interest of our Shareholders as a whole.

During the Track Record Period, our Group entered into the following transactions with related parties:

Relationship	Nature of transaction	Year ended December 31,			Six months ended June 30,
		2021	2022	2023	2024
		RMB'000	RMB'000	RMB'000	RMB'000
The Controlling Shareholders Group . . .	Short-term lease expenses	—	24	191	179

Short-term lease expenses with the Controlling Shareholders represented the vehicle lease entered into between Wang Na as lessor and Beijing Mokingran as lessee, pursuant to which Wang Na agreed to lease her vehicle to our Group at a monthly rental rate of RMB2,000.

Except for the above short-term lease in which we applied recognition exemption, our Group has recognized an addition of right-of-use assets and lease liabilities of RMB1.5 million for the year ended December 31, 2022 for the lease of retail stores with the Controlling Shareholders Wang Zhongshan and Zhang Xiuqin as landlords and Changle Chengxin as tenant for our use of sales of jewellery. The lease was terminated early on June 30, 2023.

KEY FINANCIAL RATIOS

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

	As of/Year ended December 31,			As of/ Six months ended June 30,
	2021	2022	2023	2024
Gross profit margin(1)	3.2%	4.8%	5.3%	6.2%
Net profit margin(2)	1.3%	1.1%	1.2%	0.5%
Return on equity(3)	15.7%	11.2%	12.9%	N/A
Return on total assets(4)	6.4%	5.2%	6.4%	N/A
Current ratio(5)	1.5 times	1.8 times	1.7 times	1.6 times
Quick ratio(6)	0.5 times	0.7 times	0.6 times	0.7 times
Gearing ratio(7)	86.8%	49.1%	41.1%	56.8%
Debt to equity ratio(8)	76.9%	35.8%	33.0%	37.5%

Notes:

(1) Gross profit margin was calculated based on gross profit divided by revenue for the respective year.

(2) Net profit margin was calculated based on net profit after taxes divided by revenue for the respective year.

(3) Return on equity was calculated based on net profit of the respective year, divided by the arithmetic mean of the opening and closing balances of total equity and multiplied by 100%. Return on equity for the six months ended June 30, 2024 is not meaningful as it may not be comparable to the ones for the full year.

(4) Return on total assets was calculated based on net profit of the respective year, divided by the arithmetic mean of the opening and closing balances of total assets and multiplied by 100%. Return on total assets for the six months ended June 30, 2024 is not meaningful as it may not be comparable to the ones for the full year.

(5) Current ratio was calculated based on the total current assets divided by the total current liabilities as of the relevant dates.

(6) Quick ratio was calculated based on the total current assets less inventories and divided by the total current liabilities as of the relevant dates.

(7) Gearing ratio was calculated based on total borrowings divided by total equity as of the relevant dates and multiplied by 100%.

(8) Debt to equity ratio was calculated based on total borrowings net of cash and cash equivalents divided by total equity as of the relevant date and multiplied by 100%.

Gross profit margin

For the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024, our gross profit margin was approximately 3.2%, 4.8%, 5.3% and 6.2%, respectively. See "— Review of Historical Results of Operations" above for a discussion of the factors affecting our gross profit margin during the Track Record Period.

Net profit margin

Our net profit margin was 1.3%, 1.1%, 1.2% and 0.5% respectively, for the years ended December 31, 2021, 2022 and 2023 and the six months ended June 30, 2024.

Return on equity

Our return on equity decreased from 15.7% for the year ended December 31, 2021 to 11.2% for the year ended December 31, 2022 mainly due to the significant amount of losses recognized in other gains and losses, net due to Au (T+D) where gold price was on an upward trend in 2022. Our return on equity was 12.9% for the year ended 2023, mainly due to higher profit driven by revenue growth in 2023 and our sales were affected by pandemic for the year 2022.

Return on total assets

Our return on total assets decreased from 6.4% for the year ended December 31, 2021 to 5.2% for the year ended December 31, 2022, which were in line with the trend in return on equity. Our return on total assets was 6.4% for the year ended 2023, which were in line with the trend in return on equity.

Current ratio and quick ratio

Our current ratios remained stable at 1.5x, 1.8x, 1.7x and 1.6x as of December 31, 2021, 2022, and 2023 and June 30, 2024, respectively.

Our quick ratio remained relatively stable and was 0.5 times, 0.7 times, 0.6 times and 0.7 times as of December 31, 2021, 2022 and 2023 and June 30, 2024, respectively, which were generally in line with the trend of current ratio.

Gearing ratio

Our gearing ratio was 86.8%, 49.1%, 41.1% and 56.8% as of December 31, 2021, 2022 and 2023 and June 30, 2024, respectively. The decrease in our gearing ratio from 86.8% as of December 31, 2021 to 49.1% as of December 31, 2022 was primarily due to the decrease in borrowings because we did not renew certain borrowings caused by limited operations during the pandemic in the fourth quarter of 2022. Our gearing ratio then remained relatively stable at 41.1% as of December 31, 2023, and further increased to 56.8% as of June 30, 2024 as we incurred more borrowings.

Debt to equity ratio

Our debt to equity ratio was 76.9%, 35.8%, 33.0% and 37.5% as of December 31, 2021, 2022 and 2023 and June 30, 2024, respectively. The trend in our debt to equity ratio was in line with our gearing ratio.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market, such as market risk, credit risk and liquidity risk.

Market risk

(i) *Commodity price risk*

The Group is principally engaged in the sales of jewellery including gold products in the PRC. The gold market is influenced by global as well as regional supply and demand conditions. A significant decline in prices of gold could adversely affect the Group's financial performance. In order to reduce the commodity price risk, the Group uses gold loans as well as derivative financial instruments of gold contracts, such as Au (T+D) contracts, to reduce its exposure to fluctuations in the gold price on gold products. Should the gold price go up, the Group would recognize a loss representing the increase in gold price compared to the contract price, and largely net against the increase in turnover of gold products as a result of gold price increase.

The Au (T+D) contracts are settled on a daily basis and the differences between the contract price and market price are immediately recognized in the consolidated statements of profit or loss and other comprehensive income.

The gold loans are settled at maturity which usually mature in three to 12 months from date of inception and the fair value changes are immediately recognized in the consolidated statements of profit or loss and other comprehensive income. The gold price exposures are monitored by management in a timely manner.

As of December 31, 2021, 2022 and 2023 and June 30, 2024, if the market price of gold had increased/decreased by 5%, post-tax profit for the years ended December 31, 2021, 2022 and 2023 and for the six months ended June 30, 2024, due to changes in fair values of gold loans, would have been approximately RMB18.3 million, RMB14.8 million, RMB18.8 million and RMB15.5 million lower/higher respectively.

(ii) ***Interest rate risk***

Our Group's fair value interest rate risk relates primarily to pledged/restricted deposits, fixed-rate borrowings, gold loans and lease liabilities. Our Group are also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk are mainly concentrated on the fluctuation of interest rates on bank balances, which carry prevailing market interest rates. Our Group manage interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. No sensitivity analysis on cash flow interest rate risk is presented as the management considers the sensitivity on interest rate risk on bank balances is insignificant.

Details of the market risk we are exposed are set out in note 41 to the historical financial information in the Accountants' Report set out in Appendix I to this document.

Credit risk

Our Group's maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position (including trade receivables, other receivables, pledged/restricted deposits and cash and cash equivalents).

Details of the credit quality and the maximum exposure to credit risk we are exposed are set out in note 41 to the historical financial information in the Accountants' Report set out in Appendix I to this document.

Liquidity risk

In the management of the liquidity risk, the management of our Group monitors and maintains a reasonable level of cash and cash equivalents which is deemed adequate by the management to finance our Group's operations and mitigate the effects of fluctuations in cash flows.

Details of the maturity profile of our financial liabilities are set out in note 41 to the historical financial information in the Accountants' Report set out in Appendix I to this document.

[REDACTED]

Assuming an [REDACTED] of HK$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] of HK$[REDACTED] to HK$[REDACTED] per [REDACTED], and assuming the [REDACTED] is not exercised the total estimated [REDACTED] in connection with the [REDACTED] (including [REDACTED]) was RMB[REDACTED] million (including (i) [REDACTED]-related expenses (including but not limited to commissions and fees) of approximately RMB[REDACTED] million, and (ii) non-[REDACTED] related expenses of approximately RMB[REDACTED] million, which consist of fees and expenses paid to legal advisors and Reporting Accountants of approximately RMB[REDACTED] million, and other fees and expenses of approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the gross [REDACTED] from the [REDACTED], (based on the [REDACTED] of HK$[REDACTED] per [REDACTED] and assuming [REDACTED] is not exercised).

During the Track Record Period, RMB[REDACTED] million of [REDACTED] and issue costs has been incurred. For the years ending December 31, 2024, we expect to incur [REDACTED] of RMB[REDACTED] million, respectively, of which an estimated amount of RMB[REDACTED] million will be charged to profit or loss and RMB[REDACTED] million will be accounted for as a deduction from equity upon successful [REDACTED] under relevant accounting standards, respectively. The [REDACTED] above were the best estimate as of the Latest Practicable Date and for reference only and the actual amount may differ from this estimate.

DIVIDENDS

The dividend declared by our Group to the shareholders was nil, RMB78.7 million, nil and RMB91.6 million for the years ended December 31, during 2021, 2022 and 2023 and for the six months ended June 30, 2024, respectively. All dividends declared have been fully settled by cash.

We do not have any fixed dividend policy nor pre-determined dividend payout ratio. The declaration of dividends is subject to the discretion of our Board. Any declaration of final dividend by our Company shall also be subject to the approval of our Shareholders in a Shareholders' meeting. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to constitutional documents, any applicable laws and regulations. Historical dividend distributions are not indicative of our future dividend distribution.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

PROPERTY VALUATION

Cushman & Wakefield Limited, an independent property valuer, has valued certain of our property interests as of [February 29, 2024] and is of the opinion that the total market value in existing state as of such date was RMB120.0 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix III to this document. A reconciliation of the net book value of our properties as of [December 31, 2023] as set out in the "Accountants' Report" in Appendix I to this document to their fair value as of [February 29, 2024] as stated in the property valuation report as set out in Appendix III to this document is set out below:

1. Office units located in Tianjin

	RMB'000
Net book value as of December 31, 2023	23,075
Movement for the period from December 31, 2023 to February 29, 2024 (unaudited)	(312)
Net book value as of February 29, 2024 (unaudited)	22,763
Net valuation surplus	31,237
Valuation of the properties owned by our Group as of February 29, 2024 as set out in the property valuation report in Appendix III to this document	54,000

2. Factory located in Tianjin

	RMB'000
Net book value as of December 31, 2023	54,118
Movement for the period from December 31, 2023 to February 29, 2024 (unaudited)	(319)
Net book value as of February 29, 2024 (unaudited)	53,799
Net valuation surplus	1,201
Valuation of the properties owned by our Group as of February 29, 2024 as set out in the property valuation report in Appendix III to this document	55,000

3. Commercial property units located in Beijing

	RMB'000
Net book value as of December 31, 2023	3,502
Movement for the period from December 31, 2023 to February 29, 2024 (unaudited)	(68)
Net book value as of February 29, 2024 (unaudited)	3,434
Net valuation surplus	7,566
Valuation of the properties owned by our Group as of February 29, 2024 as set out in the property valuation report in Appendix III to this document	11,000

DISTRIBUTABLE RESERVES

Our Company was as a limited liability company on September 8, 2000 and converted into a joint-stock company with limited liability under the Company Law of the PRC on June 29, 2018. Reserves available for distribution to our Shareholders as of December 31, 2023 amounted to RMB490.7 million.

[REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

See "Appendix II — [REDACTED] Financial Information" to this document for details.

NO MATERIAL AND ADVERSE CHANGE

Our Directors have confirmed, after performing all the due diligence work which our Directors consider sufficient, that, as of the date of this Document, there had been no material adverse change in our financial, trading position, prospects, gross profit margin or revenue since June 30, 2024 and there has been no event since June 30, 2024 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this Document.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENTS

See "Summary — Recent Developments and No Material and Adverse Change" for further details of recent developments of our Group.