[REDACTED] *should consider carefully all the information set forth in this document and, in particular, should consider the following risks and special considerations in connection with an* **[REDACTED]** *in our Company before making any* **[REDACTED]** *decision in relation to the* **[REDACTED]**. *The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial condition and prospects of our Group. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your* **[REDACTED]**.

This document contains certain forward-looking statements regarding our plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this document. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this document. The trading price of the **[REDACTED]** *could decline due to any of these risks, and you may lose all or part of your* **[REDACTED]**.

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. These risks and uncertainties can be broadly categorised into: (i) risks relating to our business and industry; (ii) risks relating to the **[REDACTED]**; and (iii) risks relating to statements made in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Reliance on key suppliers could disrupt operations and financials

During the Track Record Period, a considerable portion of our purchases were sourced from a small group of major suppliers, highlighting a significant concentration in our supply chain. This reliance on a limited number of key suppliers is evidenced by our purchasing patterns: our five largest suppliers in each year accounted for approximately 87.6% and 87.9% for the respective years of our total purchases for FY2024 and FY2025, respectively. Our single largest supplier represented a substantial portion of our total purchases, accounting for approximately 42.8% and 43.9% of our total purchases during FY2024 and FY2025. This high degree of supplier concentration exposes our business to the following risks:

1. Potential price volatility: with limited alternatives, we may be vulnerable to price increases imposed by our major suppliers;

2. Supply chain disruptions: any operational issues, financial difficulties, or external factors affecting our key suppliers could lead to interruptions in our raw material supply;

3. Reduced negotiating leverage: our dependence on these suppliers may weaken our ability to negotiate favourable terms, potentially impacting our cost structure and profitability; and

4. Quality control challenges: relying heavily on a few suppliers may limit our ability to ensure consistent quality across our raw materials.

If any of our major suppliers were to fail in delivering raw materials in a timely manner, cease their operations unexpectedly, or decide to terminate their business relationships with us, we could face severe operational challenges. In such scenarios, we may struggle to find suitable alternative suppliers capable of meeting our specific requirements, especially on commercially acceptable terms or within a timeframe that does not disrupt our operations. Moreover, the effects of such supply chain disruptions could lead to:

1. Production delays: interruptions in raw material supply could force us to slow or halt our production processes;

2. Order fulfilment issues: delays in production would likely lead to missed delivery deadlines for our customers;

3. Financial implications: both increased costs (if we are forced to source materials at higher prices) and reduced revenues (from production delays) could significantly impact our financial performance;

4. Reputational damage: persistent delayed delivery issues could harm our relationships with customers and our overall market reputation; and

5. Long-term strategic impact: persistent supply chain vulnerabilities might force us to reconsider our product offerings or market positioning.

Any significant disruption in our supplier relationships or inability to diversify our supply chain could have a material adverse effect on our business operations, financial condition, and long-term prospects. Addressing this supplier concentration risk remains a critical strategic priority for ensuring the resilience and sustainability of our business model.

Significant reliance on a small number of major customers creates concentration risk and could materially impact revenue and profitability

Our Group relies heavily on a small number of major customers for a substantial portion of our total revenue. This concentration of business among a few key accounts presents significant risks to our financial stability and operational continuity. During the Track Record Period, our top five customers in each year consistently accounted for more than 40% of our total revenue, underscoring the extent of our dependence on these relationships. Specifically, in FY2024 and FY2025, revenue generated from our five largest customers in each year accounted for approximately 53.8% and 46.4% for the respective years of our total revenue, respectively. These figures highlight the disproportionate impact these customers have on our overall financial performance. Our dependence on such a limited number of major customers exposes us to considerable concentration risk such as:

1. Vulnerability to customer decisions: if any of these major customers were to substantially reduce their purchase volumes or cease doing business with us entirely, the impact on our revenue and profitability could be immediate and severe;

2. Limited diversification: our current customer base does not provide sufficient diversification to mitigate the risks associated with losing one or more major accounts;

3. Bargaining power imbalance: reliance on a few large customers may weaken our negotiating position in terms of pricing, payment terms, and other contractual conditions; and

4. Exposure to industry-specific risks: if our major customers operate in similar sectors, we become more vulnerable to industry-wide downturns or disruptions.

There is no guarantee we will be able to maintain our existing business relationships with these major customers. Market conditions, competitive pressures, changes in customer preferences, or strategic shifts in our customers' businesses could all potentially lead to reduced orders or terminated relationships. Furthermore, our ability to expand our customer base to reduce reliance on this limited number of customers is not assured. Factors such as intense market competition, potential limitations in our production capacity, or challenges in adapting our products to meet new customer requirements could hinder our efforts to diversify our customer portfolio. The consequences of failing to retain our major customers or attract new ones could be far-reaching. A significant loss of business from one or more key accounts could trigger a cascade of negative effects, including:

1. Revenue shortfall: a sudden drop in orders could lead to underutilised production capacity and reduced cash flow;

2. Profitability squeeze: fixed costs would be spread over a smaller revenue base, potentially eroding our profit margins;

3. Reputational impact: losing major customers might negatively affect our standing in the industry and our ability to attract new business; and

4. Financial instability: reduced revenue and profitability could strain our ability to meet financial obligations or invest in growth initiatives.

Our heavy reliance on a small group of major customers presents a material risk to our business. Any significant changes in these key relationships could have substantial and adverse effects on our revenue, profitability, financial condition, and overall business operations. Mitigating this risk through exploring new customers, customer diversification and strengthening existing relationships remains a critical strategic imperative for our long-term stability and growth.

Customers operating in geographically overlapping regions creates the risk of cannibalism

As we expand our distribution network for graphene-integrated thermal products across Northeast China, targeting tier-1 and tier-2 cities such as Dalian and Harbin, we acknowledge the inherent risk of cannibalisation among our customers, who are distributors of our products, as some are operating within overlapping regions. As of 31 December 2025, the Group maintained relationships with 29 distributors, primarily located in Northeast China. If we are not successful in supporting market segmentation, our customers may compete excessively with each other and trigger price instability through price wars or undercutting, which could destabilise the market and erode profitability. Price instability arising from cannibalism may damage brand value and consistency in the marketplace, damaging our Group's reputation in the long term. If not managed adequately, cannibalism between our distributors may adversely affect our business, financial condition and results of operations.

We operate in a highly competitive and fragmented industry, and our failure to effectively compete against current or potential competitors could adversely impact our business, financial condition, and results of operations

The new heat-generating materials industry and the new heat-generating products industry in which we operate is highly competitive and fragmented. According to the Frost & Sullivan Report, in 2025, there were over 50 thousand participants in the combined industry, with over 20 thousand participants in the new heat-generating materials industry and over 30 thousand participants in the new heat-generating products industry. In the same year, the top 5 companies (by revenue) in China's new heat-generating materials industry accounted for only approximately 0.7% of the total industry revenue, and the top 5 companies (by revenue) in China's new heat-generating products industry accounted for only approximately 1.7% of the total industry revenue.

We face multi-faceted competition within this fragmented market, competing directly with manufacturers producing similar products and anticipating new competitors as we expand into new markets. Our competitors may possess advantages such as stronger brand recognition, better access to capital, longer operating history, or more extensive distribution networks. Some may develop or acquire superior technologies, offering better product performance or more cost-effective production methods.

Failure to compete effectively in this challenging environment could lead to several adverse outcomes. We might be forced to reduce prices to maintain market share, impacting our revenue and profitability. If we cannot offset price reductions with cost efficiencies, our profit margin could erode. Stronger competitors or new entrants might capture market share at our expense, and intense competition could limit our ability to expand into new markets or product categories.

To mitigate these risks, we need to continuously innovate, invest in brand building and customer relationships, optimise our cost structure, and consider strategic partnerships or acquisitions. Diversifying our product offerings or target markets may also be necessary to reduce reliance on any single competitive arena.

The highly competitive and fragmented nature of our industry presents significant challenges. Our ability to navigate this landscape effectively will be crucial for our future success. Failure to compete successfully could materially and adversely affect our market position, financial condition, and long-term growth prospects. Maintaining awareness of market dynamics, continuously improving our competitive position, and adapting to industry trends will be essential for our sustained success in this challenging environment.

Risk of product defects and potential product liability claims could result in significant costs, damage to our reputation, and adversely impact our business, financial condition, and results of operations

As a manufacturer of graphene-based heating films and graphene-integrated thermal products, we are exposed to risks associated with product defects. Despite our quality control measures, we cannot guarantee that all of our products are free from defects. Product defects may occur due to various factors, such as raw material quality issues, manufacturing errors or design flaws. If our products are found to be defective, we may be subject to product liability claims, product recalls or customer complaints, which could result in significant costs and damage to our reputation. Moreover, the Group did not maintain product liability insurance during the Track Record Period and up to the Latest Practicable Date, as it is not required under PRC law. As such, we may not have sufficient insurance coverage to cover all potential liabilities arising from product defects. Consequently, any significant product defects or product liability claims could have a material adverse effect on our business, financial condition and results of operations.

During the Track Record Period and up to the Latest Practicable Date, we had no product recalls or liabilities due to product defects, and no recalls arising from alleged breaches of product quality or technical standards. For illustration only, if a one off recall affected 1.0% of our FY2025 unit sales (5,030 units) and assuming a per unit remedy cost of RMB60.0 (covering typical reverse logistics, inspection and simple rework for our products), the estimated direct remedy cost would be approximately RMB0.3 million. Advisory/legal fees could be approximately RMB0.5 million. In aggregate, such a recall could therefore cost approximately RMB0.8 million, equivalent to around 1.6% of FY2025 gross profit of approximately RMB49.9 million. Any significant product defects or product liability claims could therefore materially adversely affect our business, financial condition and results of operations.

Risk of trademark infringement and potential challenges in protecting or registering our intellectual property could diminish our brand value, impair our competitive position, and adversely affect our business, financial condition, and results of operations

Throughout our business development history, we have developed and maintained a number of patents and trademarks for our business. As at 31 December 2025, we held three utility model patents and one invention patent. Further information is set forth in the subsection headed "Appendix IV — Statutory and General Information — B. Further information about our business — 2. Intellectual property rights" in this document. As such, trademarks, patents, new technologies, and new production processes are important to our operations and competitive standing. The risks we face in regard to such intellectual property are threefold: potential obstacles to registering patent protections, difficulty of protecting trademarks, and the risk of third-party intellectual property infringement claims.

Seeking patent protection can be lengthy and expensive, and we cannot assure you that our patent applications will be successful and result in patents being registered or that our registered patents will be sufficient to provide us with the required protection or commercial advantage. Our patents (whether registered or pending registration) may be challenged, invalidated or circumvented.

Our success depends, in part, on our ability to protect our trademarks and other intellectual property rights. Other than by way of registration, we also enter into proprietary and confidentiality agreements with our key R&D employees to protect our intellectual property rights. However, there can be no assurance that our trademark registrations or confidentiality agreements will provide sufficient protection or that we will be able to detect or prevent infringement of our trademarks by third parties or our key R&D employees. Monitoring unauthorised use of proprietary rights is difficult and expensive. If we fail to protect our trademarks or if third parties/key R&D employees infringe upon our trademarks, the value of our brand and the marketability of our products could be diminished, which could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that security of our intellectual property will not be breached, or that our protective measures will be able to offer us meaningful protection, or that adequate remedies will be available in the event of unauthorised uses or disclosures of our trade secrets and know-how. In addition, we cannot assure you that other competitors in the market will not obtain knowledge of trade secrets or know-how through independent development.

Simultaneously, we seek to develop and implement new technologies and production processes to keep pace with market developments. In doing so, we may not be aware of other third-party intellectual property rights, and accordingly, we may be unable to assess the scope and validity of those third-party intellectual property rights. In addition, product development is inherently uncertain in a rapidly evolving technology environment where there may be numerous patent applications pending, many of which are confidential when filed, regarding similar technologies. There may also be uncertainty regarding the rightful ownership of newly developed patents or technology. Accordingly, we may be subject to lawsuits for infringement of intellectual property rights. Intellectual property litigation may adversely affect our application of the relevant intellectual property rights over the challenged technology, and we may need to pay substantial damages or royalties for licensed proprietary rights if we are found liable for the alleged infringement. Given that technological development plays an important role in the new heat-generating materials industry, we cannot assure you that our current measures in relation to intellectual property rights protection are adequate and that we will not be subject to claims of intellectual property rights infringement by third parties

Any litigation around issues of intellectual property, including but not limited to the defending, enforcing or alleged infringement of it, can be very difficult, expensive and time-intensive. The experience and capabilities of the PRC courts in handling intellectual property litigation vary, and the outcomes are also unpredictable. In the event of any such litigation or an adverse outcome in any such litigation, it could result in substantial costs and diversion of resources and management attention, our business, reputation, prospects, and competitive position could be harmed.

In any event, by way of illustration only, a medium-complexity single-jurisdiction PRC IP action may involve external legal and expert costs of approximately RMB0.5–RMB1.5 million at first instance (and up to approximately RMB2–RMB4 million if appellate or multi-front), according to the Frost & Sullivan report; damages could be assessed with reference to implicated product revenues (for example, 0.5%–1.5% of the relevant product line revenue for one year), which, if applied solely to our FY2025 smart thermal clothing revenue of approximately RMB39.1 million, would equate to approximately RMB0.20–RMB0.59 million. In an adverse combined case, aggregate cost exposure could be approximately RMB2.2–RMB4.6 million (about 4.4%–9.2% of FY2025 gross profit). Any such litigation or remedies could have an adverse effect on our business, financial condition, results of operations or prospects.

Our historical revenue growth may not be indicative of our future performance

Our historical results may not be representative of our future performance, and our financial and operating results may not meet the expectations of public market investors or financial analysts who are tracking our performance. This could potentially cause the future price of our Shares to decline. Our revenue, costs, expenses, and operating results may vary from period to period as they could be affected by various factors beyond our control.

During the Track Record Period, our revenue grew from approximately RMB97.9 million for FY2024 to RMB119.1 million for FY2025, representing a 21.6% increase. However, this historical growth rate may not be sustainable or indicative of our future performance.

Factors that may affect our future performance include, but are not limited to, changes in general economic conditions, new trends in the PRC graphene-based heating films and graphene-integrated thermal products market, adjustments and changes in graphene-related policies, and our ability to control costs and operating expenses.

As a result, we believe that period-to-period comparisons of our operating results during the Track Record Period may not be indicative of our future performance. Investors should not rely on such comparisons to predict the future performance of our operating results or the Shares. Our ability to achieve and maintain profitability depends on a number of factors, many of which are beyond our control. If we fail to achieve any of the above, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our results of operations are significantly affected by fluctuations in the prices and availability of our major raw materials

Our results of operations are significantly affected by fluctuations in the prices and availability of our major raw materials, namely TPU film and graphene. During the Track Record Period, TPU film and graphene accounted for approximately 77.1% and 53.5% of our total costs of raw materials in FY2024 and FY2025, respectively. We have limited control over the supply and availability of these major raw materials. In particular, the prices and availability of our major raw materials are sensitive to transport disruptions, government policies, general economic conditions and many other factors beyond our control. According to Frost & Sullivan, from 2020 to 2025, the average import and export price of graphene decreased from approximately RMB0.68 and RMB1.38 per kilogramme in 2020 to RMB0.59 and RMB0.98 per kilogramme in 2025 with a CAGR of -2.7% and -6.6%, respectively. Similarly, our average purchase cost of TPU film was not entirely stable and experienced minor fluctuations throughout the Track Record Period. For details of the trends of the average import and export prices of graphene, please refer to the subsection headed "Industry Overview — Cost analysis of China's heat-generating materials and products industry" in this document. We may not be able to fully pass on the increasing raw materials costs to our customers. As a result, our profitability and overall financial performance may be materially and adversely affected by any substantial increase in the prices of our major raw materials.

Moreover, as disclosed in "Financial Information — Significant factors affecting our results," a ±5%, ±10% and ±15% change in TPU film costs would have impacted FY2025 profit before tax by approximately RMB±82,000, RMB±164,000 and RMB±247,000, respectively; and a ±5%, ±10% and ±15% change in graphene costs would have impacted FY2025 profit before tax by approximately RMB±68,000, RMB±136,000 and RMB±204,000, respectively. A simultaneous +15% increase in both TPU film and graphene would have reduced FY2025 profit before tax by approximately RMB0.45 million (about 1.7% of FY2025 profit before tax of RMB26.1 million). As a result, our profitability and overall financial performance may be materially and adversely affected by any substantial increase in the prices of our major raw materials or supply disruptions.

Our results of operations may be subject to seasonal fluctuations

Our business and industry are subject to seasonality inherent to the heat-generating materials and products market in Northeast China. Our sales performance typically demonstrates strong cyclical patterns, with higher revenue generated during the second half of the year when demand for our products peaks due to colder climate. Conversely, we generally experience lower sales during the first half of the year, reflecting reduced demand for heat-generating materials and products market during warmer seasons.

The seasonal nature of our business is directly influenced by the natural climate patterns in Northeast China, which drive demand for our graphene-based heating films and graphene-integrated thermal products. While we have historically adapted our operations to manage these seasonal fluctuations, as we continue to grow and expand our business, and as the heat-generating materials and products industry continues to evolve, our seasonal patterns may change in the future. Various factors, including climate change, shifting market dynamics, and changes in consumer preferences, could alter traditional seasonal trends.

Consequently, comparing our operating results on a period-to-period basis may not be meaningful, and our results of operations and the price of our Shares may fluctuate from time to time due to these seasonal factors. Investors should consider these seasonal fluctuations when evaluating our business and financial performance.

We are exposed to risks of obsolete inventory which may adversely impact our cash flow and liquidity

We are exposed to risk of inventories obsolescence. Our inventory comprises raw materials and finished products. We had inventories of raw materials and finished goods of approximately RMB4.2 million and RMB3.5 million as at 31 December 2024 and 2025, respectively. For FY2024 and FY2025, our average inventory turnover days were recorded at approximately 45 days and 21 days, respectively.

Any increase in inventory may adversely affect our working capital. If we cannot manage our inventory level efficiently in the future, our liquidity and cash flow may be adversely affected. As our business expands, our inventory level increases, and our inventory obsolescence risk may also increase along with the increased purchase of inventories. Furthermore, any unexpected and adverse changes to the optimal storage conditions at our warehouse may expedite the deterioration of our inventories which may in turn increase our inventory obsolescence risk.

As at 31 December 2024 and 2025, our finished goods balances amounted to approximately RMB3.2 million and RMB2.8 million, respectively. Therefore, any unexpected change in the economic condition or degree of economic activities of our customers may render our inventory obsolete. Such unexpected change in the demand for our products may result in over-stocked raw materials and finished goods which may lead to decline in inventory values, and significant write-offs. Furthermore, obsolescent inventories may directly impact our sales and pricing as we may be required to lower the selling price of our products to reduce the inventory level, which may lead to lower profit margin. All these factors may in turn affect our business, financial condition and results of operations.

Our production process requires timely and stable supply of quality raw materials at reasonable prices

We source our major raw materials from Independent Third Parties in the PRC. Moreover, our ability to maintain consistent and high-quality production depends on reliable supply of raw materials in accordance with our specifications. We generally do not have long-term agreements with our major suppliers. During the Track Record Period, we did not experience any major disputes with our major suppliers which materially and adversely affected our business operation. Nonetheless, we cannot guarantee that we will not have any material disputes with our major suppliers, or we will be able to maintain business relationships with existing major suppliers in the future. Any material disputes between us and our major suppliers may also affect our relationship with our suppliers which in turn undermine the stable supply of raw materials in future.

Our production is subject to machinery and equipment breakdown or unexpected disruptions

We rely heavily on the use of machinery and equipment for our production. Our production facilities generally operate on a five days, 16 hours (2 shifts) basis (excluding all employees' general holiday and public holiday but including downtime due to maintenance/inspection), and our machinery may break down in the course of our ordinary use. Any failure or substandard performance of our machinery, or any unexpected disruption to our production facilities due to power failure could result in an interruption or delay to our operations, and accordingly negatively affect our production schedule and render us unable to deliver our products to our customers on time. The stable operation of machinery and equipment is important to us and we cannot assure you that our production facilities will continue to function stably, or that in the event of machinery breakdown, we could secure a replacement which offers a similar level of performance or obtain maintenance services in a timely manner to maintain our production capacity to satisfy demand from our customers. In such event, our production may be adversely affected, and significant financial resources may be spent on such replacement or maintenance, which may in turn adversely affect our business and financial condition. Furthermore, as a result of disruption to our production facilities, our Group's production capacity and the relevant utilisation rate may be affected, which may result in a drop in our revenue, gross profit margin and profitability.

In addition, in the event of (i) natural disasters; (ii) riots, social unrest and terrorist attacks; (iii) outbreak of infectious diseases; and (iv) other events that are beyond our control, we may incur substantial losses due to loss of revenue from disruption of production, and additional expenditure on repairs or replacement of our damaged machinery and equipment. Further, our production capacity would be negatively affected, and we may not deliver our products to our customers on time, which would impair our customers' confidence in us.

Our plan to expand our production facilities may not be successful as we expected or such expansion may result in increase in our cost of sales and may materially and adversely affect our operations and financial results

To support our growing operations and to cater for our customers' demand, we intend to further expand our existing production facilities by purchasing additional weaving and composite production lines at our production facilities.

Upon completion of our expansion plan, our total annual production capacity at our production facilities is expected to increase from approximately 219,000 sq.m. to 306,000 sq.m..

The total capital expenditure of our expansion plan is expected to be approximately HK$16.0 million. As at the Latest Practicable Date, we are in the course of finalising our expansion plan.

There is no assurance that our current suppliers may always be able to meet our demand or requirements in the future. If our suppliers no longer supply raw materials to us or fail to deliver raw materials in accordance with our specifications, we may not be able to carry out our obligations under our production orders with our customers. As at 31 December 2025, we had 21 qualified suppliers for the raw materials which are important to our operation. There is no guarantee that we can identify additional suppliers which can fully satisfy our demand in terms of quality and quantity in a timely manner, or on commercially acceptable terms, failing which we may not be able to continue with our business operations, and our business, reputation or operating results may be materially and adversely affected.

We depend heavily on our distributors for revenue and sales, and our limited control over their operations and effectiveness could materially and adversely affect our business, financial condition and results of operations

Our distributors are crucial to our business operations. As at 31 December 2024 and 2025, there were 22 and 29 distributors in our distribution network, respectively, primarily covering the Northeastern region of China. In FY2024 and FY2025, revenue from our distributors accounted for approximately 81.4% and 83.4% of our total revenue, respectively. We expect that distributorship will remain an important component of our distributorship network.

Our distributors may not be able to market and sell our products successfully or maintain their competitiveness due to various factors. Any of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial condition and results of operations:

- Reduction, delay or cancellation of orders from one or more of our distributors;
- Failure to renew distribution agreements and maintain relationships with our existing distributors;
- Failure to establish relationships with new distributors on favourable or standard terms; and
- Inability to timely identify and appoint additional or replace distributors upon the loss of one or more of our distributors.

Non-compliance could disrupt our sales and affect our results of operations. We also could be liable for damages or fines due to the sales and marketing activities of our distributors, which may have an adverse effect on our financial condition. Furthermore, such non-compliance could lead to our inability to track sales and inventory levels of our distributors for our products, which may cause us to incorrectly predict sales trends and prevent us from quickly adjusting our marketing and product strategies.

We may not be able to successfully manage our distributors, and the cost of any consolidation or further expansion of our distributorship network may exceed the revenue generated from these efforts. If the sales volumes of our products to consumers are not maintained at a satisfactory level, our distributors may not place orders for new products with us, reduce orders, or ask for discounts on the purchase price. Additionally, if our distributors fail to distribute our products to their customers in a timely manner, overstock or carry out actions which are inconsistent with our business strategy, it may affect our future sales.

Our business and future growth are in part dependent on the ability of our distributors to maintain and expand their distributor coverage. If we fail to successfully maintain our relationships with a significant number of distributors or our distributors fail to operate successfully, our ability to effectively sell our products could be negatively impacted. These and similar actions could also negatively affect our corporate and product image, possibly resulting in loss of customers and a decline in sales. We cannot assure you that the expansion of our distributorship network will continue to be successful or will generate income as expected. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products and therefore adversely affect our financial condition and results of operations.

We are subject to credit risk for trade receivables arising from our customers and other parties

Failure to collect our trade receivables fully or timely may have a material adverse effect on our business operations and financial condition. As at the Latest Practicable Date, we usually grant our customers a credit period of 90 days. As at 31 December 2024 and 2025, we had trade receivables (net) of approximately RMB14.9 million and RMB44.5 million, respectively. As a result, we may be exposed to credit risk. For FY2024 and FY2025, the average trade receivables turnover days were approximately 28 days and 92 days, respectively. In FY2024 and FY2025, our loss allowances were RMB75,000 and approximately RMB224,000, respectively. Our Directors confirm our management's estimation and the related assumptions have been made in accordance with the information currently available to us. However, such estimation or assumptions may need to be adjusted if new information becomes known. In the event that the actual recoverability is lower than expected, or that our past allowance for impairment of trade receivables becomes insufficient in light of the new information, we may need to make more allowance for impairment of trade receivables, which may in turn materially and adversely affect our business, financial condition and results of operations.

As at 31 December 2024 and 2025, we had a concentration of credit risk as approximately 13.1% and 10.1% of the total trade receivables were due from our largest trade debtor, respectively, and approximately 53.8% and 46.4% of the total trade receivables were due from our Group's five largest trade debtors, respectively. During the Track Record Period, all of our largest customers in each year were Independent Third Parties. Our customers may experience financial difficulties, which could negatively impact our ability to collect the amounts due to us. Such adverse financial condition may negatively affect the length of time that it will take us to collect the associated trade receivables or impact the likelihood of ultimate collection, which could result in an adverse effect on our business, financial condition and results of operations.

See "Financial Information — Description and Analysis of Selected Items of Combined Statements of Financial Position — Trade and other receivables" for more details on our trade and other receivables.

The transmission of COVID-19 and any future natural disasters, acts of God, outbreak of any contagious disease or any other epidemics may adversely affect our business, results of operations and financial condition

Our assets and operations are located in the PRC, where our revenue was generated during the Track Record Period. Our business is subject to general economic and social conditions in the PRC, including natural disasters, epidemics and other acts of God that may adversely affect the economy, infrastructure and livelihood of people in the PRC. These threats include floods, earthquakes, storms, fires, droughts or epidemics such as COVID-19, SARS and various types of flu.

The COVID-19 outbreak in early 2020 led to worldwide travel restrictions, quarantines and business closures. Despite the World Health Organisation's declaration that COVID-19 no longer constituted a public health emergency of international concern, there is no assurance that it will not become a pandemic again. Our business could be impacted by future continuance or reoccurrence of COVID-19, including delays or interruptions to our operations and supply chain, cost increases in raw materials and logistics, and temporary closures or flexible working hours for our Company and business partners. These factors may cause us to incur additional costs and affect our ability to carry out operations as planned.

We are subject to increasingly stringent environmental regulations and ESG standards, which may lead to higher compliance costs and potential liabilities

The increasing global awareness of ESG matters and the adoption of more stringent environmental protection laws and regulations may significantly impact our operations and financial performance. As a manufacturer of graphene-based heating films and graphene-integrated thermal products, we are subject to various environmental laws and regulations in the PRC relating to environmental protection, energy conservation, emission reduction, safety, and occupational health.

Compliance with existing and potential additional or more stringent laws and regulations could result in increased costs and expenses related to environmental compliance, energy conservation measures, and occupational health and safety requirements. These may include substantial capital expenditures or other costs to maintain or upgrade our facilities and equipment. There can be no assurance that the PRC government will not impose more rigorous laws or regulations in the future, which may further increase our compliance costs.

While we conduct periodic inspections of our operating facilities and carry out regular equipment maintenance to ensure compliance with applicable laws and regulations, we cannot assure you that we will not experience any material accidents or worker injuries in the course of our manufacturing process in the future. Furthermore, we may not always be in full compliance with applicable PRC environmental laws and regulations. Failure to comply with the applicable laws and regulations could result in severe consequences, including: (i) fines or penalties, (ii) suspension of production, (iii) cessation of operations, (iv) loss of environmental licences, and (v) closure of production facilities by local environmental protection authorities.

Moreover, as the PRC government and regional regulatory authorities have the discretion to suspend or close any production facility failing to comply with environmental protection laws and regulations, any non-compliance may result in operational disruptions and financial losses. In the event that we are unable to pass on these additional costs to our customers, our profitability and business performance may be materially and adversely affected. The potential for more stringent regulations also introduces uncertainty into our business planning and operations, which could negatively impact our long-term strategies and growth.

As global ESG standards continue to evolve, we may also face increasing pressure from stakeholders, including customers, investors, and partners, to adopt more sustainable practices. Failure to meet these evolving expectations could result in reputational damage and loss of business opportunities. In the event these factors arise, they pose significant risks to our business, financial condition, and results of operations, and require ongoing attention and investment to ensure compliance and maintain our competitive position in an increasingly environmentally conscious market.

Our expansion plan may involve the following risks:

(i) Our production volume may vary depending on the demand for our products which in turn may be affected by market trends, customers' preferences or other factors beyond our control;

(ii) The demand for our products, the average selling price of our products and revenue to be generated may not increase in line with our increase in production capacity;

(iii) The increase in our fixed costs, such as depreciation costs, in connection with capital investments relating to the expansion of our production facilities, will be charged to our Group's income statement each year;

(iv) The increase in other variable costs incurred in relation to the expansion will be accounted for based on the production volume;

(v) We cannot guarantee our expansion plan will be successfully implemented without delay or at all; and

(vi) We may not be able to obtain the necessary licences from the PRC regulatory authorities for our expansion plan.

Meanwhile, the future plans of our Group as described in the subsections headed "Business — Expansion plan" and the section headed "Future Plans and Use of **[REDACTED]**" in this document are based on current intentions and assumptions. The future execution of such plans may be subject to capital investment and human resources constraints. Furthermore, our expansion plan may also be hindered by other factors beyond our control, such as the general market conditions, the economic and political environment of the PRC and the world. As such, our expansion plan may not materialise in accordance with the timetable or at all.

We may not successfully research and develop new products in the future to meet the requirements from our customers and we may lose our competitiveness in the market

Our abilities to improve the performance of our existing products and launch new products depend largely on our R&D capabilities. We have continuously invested in upgrading and optimising the performance and quality of our products, which we believe is crucial to our future development. Alongside technological advancements, our customers may demand products with better qualities. We consider our product development and quality consistency of our products as one of our key competitive edges and have established our R&D department to drive relevant study. Nonetheless, our expectation of upcoming market trends may not be accurate, or we may fail to maintain the quality consistency of our products that satisfies customers' needs.

If we are unable to respond effectively to market developments by developing and manufacturing new products, or maintaining consistent quality of our products, our business operations and financial condition could be adversely affected. Moreover, if our R&D capabilities or quality consistency fail to meet our customers' expectations, our business relationships with them could be adversely affected, which in turn would have an adverse impact on our sales performance and reputation.

Further, we cannot assure you that our competitors will not offer new products which are comparable or superior to our products. If we fail to keep pace with the development of our competitors, the demand for our products may drop and our products in stock may become obsolete, and as a result, our business operations and financial performance could be adversely affected.

Our reliance on the cooperation with universities and research institutions

During the Track Record Period, we cooperated with University A and University B to enhance our R&D capabilities. If these universities and research institutions fail to provide reliable research services, our business and reputation may be adversely affected. We rely on the cooperation with these universities and research institutions for conducting R&D and technology applications on graphene material. Our R&D department typically liaises with these universities and research institutions to conduct research on these technologies and directions after conducting preliminary research on ways to improve our products' performance and applications.

If these universities and research institutions discontinue cooperation with us or fail to comply with the applicable rules and regulations regarding research in the PRC, the development or production of our products may be materially and adversely affected. If any of our R&D initiatives is disrupted or terminated, we may not be able to find alternative qualified research institutes on commercial terms to our satisfaction in a timely and reliable manner, or at all. Our products may also be compromised, customer experience may be impaired and, as a result, our business and reputation could suffer.

Failure to make adequate contributions to various employee benefit plans as required by PRC laws and regulations may subject us to penalties

During the Track Record Period, we did not make sufficient contributions to the social security insurance fund and the housing provident fund for certain employees. As at 31 December 2024 and 2025, we made provisions for social security insurance fund and housing provident fund amounting to approximately RMB2.8 million and RMB1.6 million, respectively. As advised by our PRC Legal Advisors, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of social security insurance contributions as required, we may be ordered to pay the outstanding social security insurance contributions within a prescribed time limit and may be subject to an overdue fine of 0.05% of the outstanding payment per day from the date on which the payment was due. If such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of the outstanding payment. If we fail to pay the full amount of housing provident fund as required, the competent housing provident fund management centre may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

In addition, we cannot guarantee that we will not be required to pay any contribution shortfall retrospectively or penalties, thereby adversely affecting our financial condition and results of operations. For further details, please refer to the subsection headed "Business — Employees — Social security and housing provident funds" in this document.

We may be involved in litigation or legal proceedings

We may at times be involved in litigation or legal proceedings during the ordinary course of our business operations, related to, among other factors, product or other types of liabilities, and labour or contractual disputes. We may also be involved in litigation or legal proceedings as a co-defendant. If we become involved in any litigation or other legal proceedings in the future, the outcome of such proceedings could be uncertain and could result in settlements or results which may materially and adversely affect our business, financial condition and results of operations. In addition, any material litigation or legal proceedings could involve substantial legal expenses, require a significant amount of time and resources, and divert the attention of management from our daily operations. Further, we might suffer negative publicity resulting from such claims, whether reasonably founded or not. If any negative publicity or reputational harm is not effectively remedied or reversed, our existing or potential customers and suppliers may hold a poor impression of us, which may negatively affect our ability to maintain solid relationships with our customers and suppliers, engage new customers or expand into new markets.

We may be subject to liability in connection with industrial accidents or safety hazards at our production facilities inherent to our production

Our production process involves the operation of potentially dangerous equipment and machinery. Further, our production process involves discharge of hazardous waste, which may cause potential accidents if we do not handle these hazardous materials properly. There is no assurance that our safety measures or other related rules and regulations will be strictly followed by our employees. Thus, we cannot assure you that any accident or safety hazard, whether due to malfunctions of such equipment or machinery, mishandling of these hazardous materials or other reasons for disruption of operation, injuries or death will not happen at our production facilities. In such event, we may be liable for the loss of life and property, personal injuries and medical expenses suffered by the victims in the accident or safety hazard and we may have to pay fines and penalties or be subject to criminal liabilities for violation of applicable PRC laws and regulations in respect of workplace safety, workers' compensation or other matters. If any of our production facilities were damaged as a result of any accident or safety hazard, it might affect our production process and cause us to lose our customers. Furthermore, our production facilities may be required to halt operation pending investigations from the authorities, which would adversely affect our business, operation, reputation and financial performance.

Our success depends on our key personnel, and if we fail to attract, retain and motivate these key personnel, our reputation and business may be materially and adversely harmed

We believe that our success depends, to a significant extent, on the continued services and the performance of our key management personnel. The industry experience, expertise and contributions of our executive Directors and other members of our senior management are important assets to our operation. A sufficient number of experienced and competent executives is required to implement our growth plans. If we lose a number of our key management members and are unable to recruit and retain personnel with equivalent qualifications, the growth of our business could be materially and adversely affected.

If one or more of our Directors or senior management or other key personnel are unable or unwilling to continue to serve in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted, and our results of operations may be materially and adversely affected. In addition, if any member of our senior management or other key personnel joins a competitor or forms a competing business, we may lose business secrets and know-how. Any failure to attract, retain and motivate these key personnel may materially and adversely harm our reputation and business.

As such, our business, financial performance and prospects depend on our ability to employ and retain highly skilled personnel, including managerial and other technical professionals. We cannot assure you that we will be able to maintain an adequate and experienced labour force, and staff member costs may increase as a result of a shortage in supply of qualified personnel. If we fail to attract and retain personnel with suitable managerial, technical or marketing expertise or if we fail to maintain an adequate and experienced labour force, it may materially and adversely affect our business operations and may hinder our future growth and expansion.

We may not maintain an effective quality control system at our production facilities, and any failure or deterioration of our quality control system would adversely affect our operations and financial condition

The quality of our products is critical to the success of our business. Our product quality depends significantly on the effectiveness of our quality control system, which, in turn, depends on a number of factors, including the implementation of our quality control policies as well as the composition of our quality control team. Any significant failure or deterioration of our quality control system could seriously damage our product quality and have a material adverse effect on our reputation in the market among current or prospective customers, which could, in turn, lead to fewer orders in the future and harm our financial condition and operating results.

Our insurance coverage may be insufficient to protect our Group

During the Track Record Period, we have maintained the mandatory social security insurances for our employees. We believe our existing insurance coverage is adequate for our existing operations and is in line with industry standards.

However, we do not maintain insurance policies against all risks associated with our business operation or industry, either because our Directors have deemed it commercially unfeasible to do so, or the risk is believed to be minimal. If an incident occurs in relation to which we have inadequate insurance coverage, we may be held liable for uninsured losses or amounts, and our business, financial position and results of operations could be materially and adversely affected. Moreover, there is no assurance that we will be able to renew the existing insurance policies on commercially reasonable terms, or at all. If we were to incur a serious uninsured loss or a loss that significantly exceeded the limits of our insurance policies, our business, financial condition or results of operations would be materially and adversely affected.

We may be subject to administrative penalties as we have not filed some of our lease agreements with housing administration authorities

Pursuant to applicable PRC laws and regulations, lease agreements must be filed with housing administration authorities. As at the Latest Practicable Date, we had not filed one lease agreement in relation to the properties we leased with the local housing administration authorities as required under the applicable PRC law.

Our PRC Legal Advisors have advised us that according to the relevant PRC laws and regulations, we might be ordered to rectify this failure by competent authorities and if we fail to rectify within a prescribed period, a penalty of RMB1,000 to RMB10,000 per agreement may be imposed as a result. As at the Latest Practicable Date, we had not received any notice from the relevant regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to file the lease agreements described above. Our PRC Legal Advisors have also advised us that the failure to file the lease agreements would not affect the validity of such lease agreements, and that such non-compliance will not have a material adverse impact on the Group's business operations, financial condition, or results of operations. In the event that our leases are challenged by third parties, we intend to find alternative locations nearby and relocate. We may incur additional relocation costs and cannot assure you that we will be able to find alternative locations in a timely or effective manner.

It may be difficult to effect service of process or to enforce foreign judgements against our Group and management

All of our productions and assets are located in the PRC. Furthermore, all of our executive Directors are located in the PRC. Therefore, investors may encounter difficulties in effecting service of process from other places outside the PRC upon us or our executive Directors. Moreover, it is understood that the enforcement of foreign judgements in the PRC is subject to uncertainties. A court judgement from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has signed a treaty with the PRC. However, the PRC does not have treaties for the reciprocal recognition and enforcement of civil court judgements with the United States, the United Kingdom and many other countries. As a result, recognition and enforcement in the PRC of a court judgement obtained in those jurisdictions mentioned above may be difficult or impossible.

Payment of dividends is subject to restrictions under PRC law, and we cannot assure you that we will declare and distribute any amount of dividends in the future

As our Company is a holding company, we rely on dividend payments from our subsidiaries in the PRC for cash requirements, including servicing any debts our Group may incur. Under current PRC law, dividends may be paid only out of our PRC subsidiaries' accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Moreover, our PRC subsidiaries are required to set aside a certain amount of their after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. In addition, if our PRC subsidiaries incur debt in the future, the loan agreements may impose restrictions on their ability to pay dividends or make other payments to our Company.

The inability of our PRC subsidiaries to distribute dividends or other payments to our Company could significantly affect the amount of capital available to support the development and growth of our business. Furthermore, our ability to declare future dividends will depend on the availability of dividends, if any, received from our operating subsidiaries.

The declaration, payment and amount of any future dividends are subject to the discretion of our Directors depending on, among other considerations, our operations, earnings, financial condition, cash requirements and availability, our constitutional documents and applicable law. Any dividend payments will also be subject to the approval of our Shareholders. There is no assurance that dividends of any amount will be declared or distributed in any year.

The combination of PRC legal restrictions on dividend distributions from our subsidiaries and the discretionary nature of dividend declarations by our Board of Directors means that we cannot provide any assurance regarding the amount, timing, or frequency of future dividend payments, if any. This uncertainty could adversely affect the perception of our Shares as an investment opportunity and their market price. For more details on our dividend policy, please refer to the paragraph headed "Financial Information — Dividends" of this document.

Foreign exchange regulatory system in China may have a material adverse effect on your investment

We receive our revenue in RMB during the Track Record Period. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE subject to certain procedures. Hence, our PRC subsidiaries are able to pay dividends in foreign currencies to our Company without prior approval from the SAFE by satisfying certain procedural requirements. However, there is no assurance that the foreign exchange policies regarding the payment of dividends in foreign currencies will continue.

Moreover, foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require prior approval of the SAFE. The PRC government may further implement rules and regulations in the future, which could restrict the use of foreign currency under the current account and capital account in certain circumstances. These restrictions could affect our ability to obtain foreign currency through debt financing, or to obtain foreign exchange needed for our capital expenditure. The unavailability of sufficient foreign currency or an inability to transfer sufficient dividends or make other payments to us or to otherwise satisfy their foreign currency-denominated obligations would hinder our business operation or administration. As a result, we may not be able to pay dividends to our Shareholders.

PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries

In utilising the **[REDACTED]** from the **[REDACTED]** or any further offering, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans provided by us to our PRC subsidiaries are subject to PRC regulations. For example, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered or filed on record. We may also decide to increase the registered capital of our PRC subsidiaries and finance our PRC subsidiaries through capital contributions. These capital increase must be registered by the SAMR or its local counterpart and reported to the MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals or to complete reporting procedures on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals or fail to complete such reporting procedures, our ability to use the **[REDACTED]** of the **[REDACTED]** and to capitalise our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

Our dividend income from foreign-invested PRC subsidiaries and dividends payable to foreign investors may be subject to higher rates of withholding tax, and gains on the sale of our Shares may become subject to PRC tax laws

Under the EIT Law and its implementation rules, dividend payments from PRC subsidiaries to their foreign shareholders, if the foreign shareholder is not deemed a PRC tax resident enterprise under the EIT Law, are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC. If certain conditions and requirements under the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排(國稅函[2006]第884號)》), or the "China-Hong Kong Tax Arrangement" are met, the withholding rate could be reduced to 5%.

However, the Announcement of the State Administration of Taxation on Issues Relating to "Beneficial Owner" in Tax Treaties (《國家稅務總局關於稅收協定中"受益所有人"有關問題的公告》) or "Notice 9" provides that "Beneficial Owners" refer to persons who engaged in substantial business operations. It is unclear whether Notice 9 applies to dividends from our PRC operating subsidiaries paid to us through our direct subsidiary incorporated in Hong Kong which holds our PRC entities. If, under Notice 9, such Hong Kong subsidiary was not considered the "beneficial owner" of any such dividends, these dividends would be subject to income tax withholding at the rate of 10% rather than the more favourable 5% rate applicable under the China-Hong Kong Tax Arrangement.

Furthermore, under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement, a PRC withholding tax at a rate of 10% is normally applicable to dividends from "sources within the PRC" paid to our foreign investors who are "non-resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but whose relevant income is not effectively connected with the establishment or place of business. Any gain realised on the transfer of shares by such investors is generally subject to a 10% PRC income tax if such gain is regarded as income derived from "sources within the PRC" (or at a lower rate under applicable tax treaties).

Under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from "sources within the PRC" paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20%, and gains from PRC sources realised by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

If we are treated as a PRC resident enterprise, dividends we pay with respect to our Shares, or the gain realised from the transfer of our Shares, may be treated as income derived from "sources within the PRC" and as a result be subject to the PRC income taxes described above. However, shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties may claim tax treaty benefits on their own when filing a tax return or making a withholding declaration through a withholding agent pursuant to the Administrative Measures for Non-resident Taxpayers to Enjoy Treatment under Treaties (《非居民納稅人享受協定待遇管理辦法》), which was promulgated by the SAT on 14 October 2019 and came into effect on 1 January 2020. With respect to dividends, Notice 9 will also apply.

If determined to be ineligible for the foregoing tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would be subject to higher PRC tax rates. In such cases, the value of our Shares to foreign investors may be materially and adversely affected, and our financial condition and results of operations may be materially and adversely affected.

We may be classified as a "resident enterprise" for PRC enterprise income tax purposes, which could result in unfavourable tax consequences to us

The EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in the PRC are considered "resident enterprises" for tax purposes and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. "De facto management bodies" is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. However, there have been no official implementation rules regarding the determination of the "de facto management body" in the PRC for foreign enterprises that are not controlled by PRC enterprises. Therefore, it remains unclear how PRC tax authorities will treat a case like ours. If the PRC tax authorities determine that we are a "resident enterprise", we may be subject to enterprise income tax at a rate of 25% on our worldwide income, which will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations.

Fluctuation of the exchange rates may negatively affect our profitability and our ability to pay dividends

During the Track Record Period, all of our revenue was denominated in RMB. As dividends will be paid to our Shareholders in Hong Kong dollars, any appreciation of the Hong Kong dollar against RMB would have a negative effect on the amount available to us when converted into Hong Kong dollars and would therefore reduce our dividend payments.

Moreover, although our revenue and most operating costs are denominated in RMB, while certain items (including **[REDACTED]** and **[REDACTED]**) are denominated in HKD, and certain capital equipment or inputs may be priced in or influenced by USD linked currencies. Based on the mid point estimated **[REDACTED]** of approximately HK$**[REDACTED]** million (approximately RMB**[REDACTED]** million at RMB0.8973/HK$1.00), a ±5% change in RMB/HKD during recognition would change the RMB expense recognised by approximately ±RMB**[REDACTED]** million (±10%: ±RMB**[REDACTED]** million). For the expected HK$**[REDACTED]** million **[REDACTED]** (approximately RMB**[REDACTED]** million at RMB0.8973/HK$1.0), a ±5% RMB/HKD move prior to conversion would cause an economic variance of approximately ±HK$1.4 million (approximately ±RMB**[REDACTED]** million), and ±10%: approximately ±HK$**[REDACTED]** million (approximately ±RMB**[REDACTED]** million). As a result, any adverse exchange rate movements could therefore adversely affect our reported earnings and cash flows.

The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business, acquisitions or restructuring strategies

On 3 February 2015, the SAT promulgated the Announcement of SAT on Several Issues Concerning Enterprise Income Tax on Income from Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the "**Circular 7**"), which provides comprehensive guidelines relating to, and heightened the PRC tax authorities' scrutiny on indirect transfers, by a non-resident enterprise, of assets (including equity interests) of a PRC resident enterprise.

The Circular 7 may be determined by the tax authorities to be applicable to our future offshore restructuring transactions or sale of the shares of our offshore subsidiaries, where non-resident enterprises being transferors are involved. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend valuable resources to comply with the Circular 7 or to establish that we and our non-resident enterprises should not be taxed under the Circular 7 for our future restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC resident Shareholders to personal liability, limit our PRC subsidiaries' ability to distribute profits to us, or otherwise adversely affect our financial position

According to the SAFE Circular 37, PRC residents (including PRC citizens and PRC enterprises) shall apply to the SAFE or its local bureau to register foreign exchange for overseas investments before contributing to special purpose vehicles (the "**SPVs**") with legitimate domestic and overseas assets or rights and interests. In the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC citizen shareholder, name and operating duration; or in the event of any alternation in key information, such as increases or decreases in the share capital held by PRC citizens, or equity transfers, swaps, consolidations, or splits, the registered PRC residents shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus. According to the Circular on Further Simplifying and Improving Foreign Exchange

Administration Policies in Respect of Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), the bank instead of SAFE or its local bureau can directly handle the abovementioned foreign exchange registration and approval from 1 June 2015.

We may not at all times be fully aware or informed of the identities of all our beneficiaries who are PRC nationals, and may not always be able to compel our beneficiaries to comply with the requirements of the SAFE Circular 37. As a result, we cannot assure you that all of our Shareholders or beneficiaries who are PRC nationals will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by the SAFE Circular 37 or other related regulations. Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Circular 37 may result in restrictions on the foreign exchange activities of the relevant PRC enterprise and may also subject the relevant PRC resident to penalties under the PRC foreign exchange administration regulations.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for the Shares, and the liquidity, market price and trading volume of the Shares may be volatile

Prior to the **[REDACTED]**, there has been no public market for the Shares. The **[REDACTED]** of, and the permission to **[REDACTED]**, the Shares on the **[REDACTED]** do not guarantee an active trading market following completion of the **[REDACTED]**. The determination of the indicative **[REDACTED]** range stated in this document was the negotiation result between the **[REDACTED]** (for itself and on behalf of the **[REDACTED]**) and our Company. As such, the **[REDACTED]** may not be an indicative **[REDACTED]** price of the Shares on the **[REDACTED]**. Future sales of a substantial number of the Shares by our Group or its existing Shareholders after the **[REDACTED]** could adversely affect the prevailing market price of the Shares from time to time.

In addition, the liquidity, the market price and the trading volume of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business. Factors affecting the volatility of the price and the trading volume of our Shares include:

- Fluctuations in our operating results, such as revenue, earnings and cash flows;
- Fluctuations in market prices for products of our Group or any of our Group's comparable companies;
- Changes in pricing policy adopted by us and our competitors;
- **[REDACTED]** perception of our Group and our business plans;
- Announcements of new investments, strategic alliances by our Group;
- Changes in our senior management personnel; and
- General economic factors in the PRC.

In such cases, **[REDACTED]** may not be able to sell their Shares at or above the **[REDACTED]**.

Investors for our [REDACTED] will experience immediate dilution

Investors for our **[REDACTED]** will experience immediate dilution if the **[REDACTED]** is higher than the net tangible asset value per Share. Hence, **[REDACTED]** of our **[REDACTED]** will experience an immediate dilution in the **[REDACTED]** adjusted net tangible asset value to HK$**[REDACTED]** and HK$**[REDACTED]** per Share based on the **[REDACTED]** at HK$**[REDACTED]** and HK$**[REDACTED]** per **[REDACTED]** respectively.

[REDACTED] may experience dilution in the future if we issue additional Shares

Our Group may issue additional Shares upon exercise of options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would reduce the percentage ownership of the Shareholders and may dilute the earnings per Share and net asset value per Share.

In addition, our Group may need to raise additional funds in the future to finance expansion, investment and new development of our business. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to the existing Shareholders, our existing Shareholders' shareholding may be reduced, the earnings per Share and the net tangible asset value per Share would diminish and/or such newly issued securities may have rights, preferences and privileges superior to the Shares of our existing Shareholders.

The interests of our Controlling Shareholder may differ from those of our other Shareholders

Immediately following the **[REDACTED]**, without taking into account the exercise of the **[REDACTED]** and without taking into account the Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, our Controlling Shareholder will beneficially own **[REDACTED]**% of the Shares. The interests of our Controlling Shareholder may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholder conflict with the interests of our other Shareholders, or if our Controlling Shareholder chooses to cause us to pursue strategic objectives that conflict with the interests of our other Shareholders, those Shareholders may be disadvantaged by the actions that our Controlling Shareholder chooses to cause us to pursue.

Our Controlling Shareholder may have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all, or substantially all, of our assets, election of Directors, and other significant corporate actions. Our Controlling Shareholder has no obligation to consider our interests or the interests of our other Shareholders.

Any disposal of a substantial number of Shares by our Controlling Shareholder in the public market could materially and adversely affect the market price of the [REDACTED]

There is no guarantee that our Controlling Shareholder will not dispose of their Shares following the expiration of their respective lock-up periods after the **[REDACTED]**. Our Group is unable to predict the impacts, if any, of any future sales of the Shares by any of our Controlling Shareholder, on the market price of the **[REDACTED]**. Sales of a substantial number of Shares by any of our Controlling Shareholder or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the **[REDACTED]**.

Possible termination of the [REDACTED]

[REDACTED] of the **[REDACTED]** should note that the **[REDACTED]** are entitled to terminate their obligations under the **[REDACTED]** by notice in writing to our Company from the **[REDACTED]** (for itself and on behalf of the **[REDACTED]**) upon the occurrence of any of the events stated in the relevant **[REDACTED]**. Such events include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, fire, flood, tsunami, explosions, epidemic, pandemic, acts of terrorism, earthquakes, strikes or lock-outs.

You may not have the same protection of your shareholder rights under Cayman Islands law comparing to what you would have under Hong Kong law.

Our corporate affairs are governed by the Memorandum and Articles, the Cayman Companies Act, and the common law of the Cayman Islands. The rights of Shareholders to take action against the Directors, the rights of minority Shareholders to institute actions and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law may not be the same as they would be under statutes or judicial precedent in Hong Kong. In particular, the Cayman Islands have different securities laws as compared to Hong Kong and may not provide the same protection to investors. Furthermore, a Hong Kong court may not have jurisdiction to entertain a derivative action brought by shareholders for and on behalf of the Company.

RISKS RELATING TO STATEMENTS MADE IN THIS DOCUMENT

Certain facts and statistics included in this document may not be relied upon

Certain facts and statistics presented in the section headed "Industry Overview" and elsewhere in this document are derived from the Frost & Sullivan report and other publicly available sources. We believe that the sources of these information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. Aside from information from official government sources, all other information has been independently verified by us, the Sole Sponsor, the **[REDACTED]**, the **[REDACTED]**, the **[REDACTED]**, the **[REDACTED]**, the **[REDACTED]** or their respective directors, affiliates or advisors or another party involved in the **[REDACTED]**.

The current market condition may not be reflected in the statistical information included in this document

The historical information set out in this document relating to market conditions of the PRC may not reflect the current market situation due to rapid changes in the economy of the PRC. In order to provide context to the industry in which we operate, and greater understanding of our market presence and performance, various statistics and facts have been provided throughout this document. However, this information may not reflect current market conditions in the PRC as recent economic development may not be fully factored into these statistics, and the availability of the latest data may lag behind this document. As such, any information relating to market shares, sizes and growth, or performance in the markets in the PRC and other similar industry data should be viewed as historical figures that may have little value in determining future trends and results.

Forward-looking statements in this document are subject to risks and uncertainties

This document contains certain forward-looking statements and information relating to us that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words "aim", "anticipate", "believe", "can", "continue", "could", "estimate", "expect", "going forward", "intend", "ought to", "may", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Please refer to the section headed "Forward-Looking Statements" in this document for further details.

Such forward-looking statements reflect current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. Subject to the requirements of the GEM Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Investors should not place undue reliance on such forward-looking statements and information.

We strongly caution you not to place any reliance on any information contained in press articles, media coverage and/or research analyst reports regarding us and the [REDACTED]

There may be press articles, media coverage and/or research analyst reports regarding, among others, our Group, our business, our industry, our Controlling Shareholder, our Directors and employees or the **[REDACTED]**, which may include certain financial information, financial projections and other information about us that do not appear in this document. We have not authorised the disclosure of any such information in the relevant publications and we do not accept any responsibility for any such press articles, media coverage and/or research analyst reports or the accuracy or completeness or reliability of any such information or publications. To the extent that any such information appearing in publications other than this document is inconsistent or conflicts with the information contained in this document, we disclaim it. Accordingly, **[REDACTED]** should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this document.