An investment in our H Shares involves significant risks. You should carefully consider all of the information in this document, including the risks and uncertainties described below, as well as our financial statements and the related notes, and the section headed "Financial Information" of this document, before deciding to invest in our H Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial conditions, results of operations and prospects. In any such an event, the market price of our H Shares could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed "Forward-Looking Statements" of this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our results of operations could be adversely affected if we fail to keep pace with customer demands and consumer preferences for product design, development and manufacturing of our products.

Our success and continued development is dependent on our ability to develop new products. Developing new products is a complex process requiring high levels of innovation and skilled product development personnel, as well as the accurate anticipation of market trends. In FY2023, FY2024 and FY2025, our research and development expenses were approximately RMB10.1 million, RMB10.9 million and RMB14.1 million, respectively, accounting for approximately 2.8%, 2.4% and 2.9% of our total revenue for the same respective periods. We intend to continue to strengthen our product development capabilities, which can be capital intensive and time consuming. We cannot assure you that our products will be well received by customers and gain market acceptance. If we are unable to design, develop, manufacture and market new products successfully in a timely manner, or if we fail to generate ideal results from our product development, there may be a waste of capital and human resources, which may adversely affect our business, results of operations and financial condition.

The kitchen appliances market is affected by consumer preferences as well as changes in consumers' spending patterns, which are often difficult to predict. Consequently, our success depends on our ability to accurately identify these factors and take them into account during our product planning, development and manufacturing process, such as accurate analysis and prediction of market trends, timely collection of consumer feedback and flexible and cost-effective product production. If we are unable to successfully anticipate, identify or timely react to changing consumer preferences or market trends or if we misjudge the market for our products, any change of customers' consumption patterns, inaccurate market research and sluggish product development, among others, may have a material and adverse effect on our business, financial condition and results of operations.

We do not have long-term purchase commitments with any of our major ODM customers. Accordingly, any significant deterioration of our business relationship or level of transaction could adversely affect our business, results of operations and financial condition.

In FY2023, FY2024 and FY2025, revenue generated from ODM business amounted to approximately RMB173.6 million, RMB241.6 million and RMB245.9 million, respectively, accounting for approximately 47.7%, 54.0% and 49.8% of our total revenue, respectively. Among our five largest customers of each of FY2023, FY2024 and FY2025, four, five and four of them were our ODM customers with aggregate revenue of approximately RMB84.1 million, RMB142.8 million, and RMB111.6 million, respectively, representing approximately 23.1%, 31.9% and 22.6% of our total revenue for the same respective periods. We do not have long-term purchase commitments from our major customers and we are not their exclusive supplier. While certain of our customers may provide us their procurement forecast ahead of holidays or sales, such as Black Friday or Thanksgiving, orders and prices are generally confirmed on a purchase order basis. There is no assurance that we will be able to continue to develop our business relationships with these existing customers or expand our customer base. Cancellations, reductions or postponements of purchase orders by a major customer or by a group of customers could adversely affect our business, financial condition and results of operations. Moreover, if the prices of our products are not as competitive as those set by our competitors for comparable products or if the quality of our products does not meet our customers' requirements, our customers may not make purchases from us and may begin to look for alternatives in the market. Any significant reduction in customers' purchase orders may materially and adversely affect our financial condition and results of operations. The absence of long-term purchase commitments with pre-determined prices may also mean our selling prices are subject to fluctuations.

We generate a substantial part of our revenue from a number of e-commerce marketplaces. Changes in their policy or our relationship with them as well as interruptions to their services could have a material adverse effect on our business, financial condition and results of operations.

During the Track Record Period, we primarily sold our branded products through e-commerce marketplaces, such as Amazon, Leroy Merlin, OTTO and etc., to consumers. In FY2023, FY2024 and FY2025, our revenue generated from sales through e-commerce marketplaces was approximately RMB159.6 million, RMB168.1 million and RMB183.3 million, respectively, accounting for approximately 84.0%, 81.7% and 74.0% of our revenue generated from our branded business for the same periods, respectively. We expect that sales through such e-commerce marketplaces will continue to contribute to the majority of our revenue from our branded business in the foreseeable future. As such, our profitability and business performance rely on, among other things, the continued strong business relationships between e-commerce marketplaces and us.

We cannot assure you that we will be able to maintain strong business relationships with e-commerce marketplaces, or there will not be unfavorable changes in our current arrangements. We have entered into standard agreements with these e-commerce marketplaces. There is no assurance that these e-commerce marketplaces will not terminate the agreements with us or there will not be any unfavorable changes in our current arrangements, such as a substantial increase in the service fee charged by these e-commerce marketplaces or a substantial reduction of purchase orders from customers through them. In particular, as our sales through these e-commerce marketplaces increased during the Track Record Period, the e-commerce marketplaces may have increasing bargaining power. In the case that these e-commerce marketplaces amend the terms of agreements to make them unfavorable to us, the profitability of our products may be materially and adversely affected.

In addition, e-commerce marketplaces generally have the discretion to suspend or even terminate a seller's account for reasons such as the way the seller operates and manages its stores, and withhold sales proceeds for a period of time under certain circumstances. They also have the rights to interpret how they would implement their policies. We cannot assure you that they will not exercise their discretion to remove the content of our stores' webpages, delist related products, suspend or terminate our stores, or withhold our sales proceeds for a duration under certain conditions, or we may have to cancel orders, which will incur related costs. Any suspension or termination of our stores at their discretion may materially and adversely affect our business, financial condition and results of operations.

We also rely on various supporting services provided by these e-commerce marketplaces, including product storage and delivery services, which are essential for completing transactions with our customers. However, we cannot guarantee uninterrupted access to these e-commerce marketplaces and their services. Potential service interruptions could arise from a range of external factors beyond our control, including, but not limited to, hacking incidents, technical glitches and disruptions caused by human interference or malicious attacks. Should any of these lead to an interruption in the services of the e-commerce marketplaces, especially during major shopping seasons, such as "Black Friday" on Amazon, when the volume of transactions significantly increases, the disruption to our sales through these channels could result in substantial losses in sales opportunities. As a results, our operating results could be materially and adversely impacted.

Our business relies significantly on the strength of our brands and reputation, and any failure to maintain or enhance these critical assets could materially and adversely impact consumer trust, recognition and our overall performance.

During the Track Record Period, we generated a substantial portion of our revenue from selling our branded products, contributing significantly to our overall operating results. In FY2023, FY2024 and FY2025, revenue from our branded business accounted for approximately 52.3%, 46.0% and 50.2% of our total revenue, respectively. Our "Ciarra" brand name has become a valuable asset, recognized by consumers for its quality and reliability. Our continued success and growth will therefore largely depend on our ability to maintain and enhance our brand name and reputation, both in our existing markets and the new markets that we intend to expand into. If we cannot maintain, protect and enhance our brand recognition both in our existing markets and the new markets that we intend to expand into, our brand value and image could be undermined and our results of operations and business prospects could be materially and adversely affected.

In addition, our ability to launch or improve products with consistently high quality that satisfy consumer needs, our branding efforts to enhance brand awareness, our ability to uphold and implement our quality control standards, and our relationships with our major customers, suppliers and other business partners are equally important in maintaining and potentially enhancing our brand image. Our brand value may also be affected by factors not in our control. For example, counterfeit products, product defects, product liability claims, consumer complaints, intellectual property infringement, or any negative publicity with or without merits may damage our brand and reputation. Any negative claims against us, even if unethical or unsuccessful, could erode consumer trust, divert management's attention and resources away from core business operations, potentially disrupting our business and adversely affecting our financial performance. This could result in reduced customer demand for our products, thereby having a material adverse effect on our operations and financial results.

We have diverse sales channels. Our sustainable growth depends on our ability to effectively develop, manage and optimize our international sales channels.

Our sustainable growth depends partially on our ability to effectively develop, manage and optimize our international sales network and cultivate stable customer relationships worldwide. During the Track Record Period, we sold our products to over 80 countries and regions globally. Ineffective development or management of these channels could lead to suboptimal sales performance, inefficiencies and increased operational costs. For instance, failure to adequately support our ODM customers may result in decreased orders and weakened business relationships. Similarly, any shortcomings in managing our branded business sales channels could lead to reduced brand recognition and customer loyalty. Furthermore, it requires continuous monitoring and adaptation to market trends, customer preferences and competitive landscape to optimize our international sales channels. Inability to swiftly respond to these factors may result in omission of market opportunities and loss of market share. In addition, the integration and coordination of our sales channels are crucial for maintaining a consistent brand image and customer experience. If we fail to effectively develop, manage and optimize our sales network or maintain strong relationships with our customers, our business, financial condition and results of operations could be adversely affected.

Our operations are subject to a variety of costs and legal, regulatory, political and economic risks associated with conducting operations in overseas markets.

During the Track Record Period, we derived a significant portion of our revenue from sale of products to the overseas markets and our products were shipped to over 80 countries globally. In particular, our revenue from Europe was approximately RMB233.8 million, RMB278.0 million and RMB334.1 million in FY2023, FY2024 and FY2025, respectively, accounting for approximately 64.3%, 62.1% and 67.7% of our total revenue in the same periods; and our revenue from South America amounted to approximately RMB46.7 million, RMB78.2 million and RMB51.3 million in FY2023, FY2024 and FY2025, respectively, accounting for approximately 12.8%, 17.5% and 10.4% of our total revenue in the same periods. Accordingly, we face numerous risks, including legal, regulatory, political, economic, commercial and other risks associated with conducting operations in various jurisdictions, any of which could negatively affect our financial performance. These risks associated with overseas markets include: (i) limited brand recognition; (ii) negotiation with suitable e-commerce marketplaces to effectively offer our products; (iii) operational challenges due to distance, language and cultural differences; (iv) underdeveloped logistics and delivery infrastructure in certain emerging markets to support our online sales; (v) compliance with multiple and potentially conflicting laws and regulations governing various aspects of our operations, including competition, pricing, internet activities, transportation, logistics, tariffs, trade protection and other activities important to our business; (vi) competition with existing players in the kitchen appliance industry; (vii) varied levels of internet and e-commerce penetration across regions; (viii) exposure to business cultures where improper business practices may be prevalent; (ix) difficulties in managing, growing and staffing international operations; (x) impact of import and export restrictions and changes in trade regulations; (xi) risks associated with legal systems subject to undue influence or corruption; (xii) vulnerability to change in specific country's or region's political, social or economic conditions; and/or (xiii) geopolitical events, including pandemic, war and terrorism. In the event that we are not able to manage the aforementioned risks, whether individually or collectively, partly or at all, our business, financial condition and results of operations may be materially and adversely affected.

Dependence on leased facilities exposes us to relocation and disruption risks.

We conduct production and operations mainly through our leased Foshan Production Base, where we have established our production lines. Our overseas subsidiaries also operate through leases. For more details on our leases, please refer to the section headed "Business – Properties" in this document. There is no assurance that we will be able to renew the relevant lease agreements without substantial additional cost or increase in the rental costs payable by us, or at all, in which case we may be compelled to relocate from the affected premises. If our leases expire without renewal, particularly for our highly specialized production lines, relocation and reconstruction would require long construction and commissioning cycles, potentially disrupting our operations for an extended period. We may also fail to find suitable alternatives, and even if we do, we may incur significant renovation and other costs, experience loss of revenue during relocation and face other associated risks. All these poses risks to our business, financial condition and results of operations.

We face intense competition, and if we fail to compete effectively, we may lose market share, and our prospects and results of operations may be materially and adversely affected.

The kitchen appliance industry in various geographic markets where we operate is highly competitive, including well-established players in the industry with more extensive resources than us. Our competitive factors are mainly reflected in the competition for comprehensive capabilities such as product development, quality, channels, brands, supporting capabilities and after-sales services. Some of our competitors, including domestic and international companies, may have financial and other resources that exceed ours. There can be no assurance that our current or potential competitors will not market products that rival or exceed ours or adapt more quickly than we do to changing industry trends or market demands. Our competitors in certain regional markets may also benefit from sources of raw materials or production facilities closer to those markets, and there may be upstream and downstream business consolidation or alliances between competitors, and as a result, our competitors may be able to quickly capture significant market share. In addition, competition may force us to reduce prices, lower margins and lose market share, any of which could adversely affect our results of operations. We also cannot assure you that competitors will not actively engage in legal or illegal activities designed to undermine our brand and product quality or affect consumer confidence in our products. Any of these events could adversely affect our market share, business and results of operations.

We rely on our suppliers, subcontractors and contract manufacturers to deliver materials and finished goods and any material fluctuation in our costs could adversely affect our profit margin.

The stability of our supply chain is crucial to our operations. We rely on our suppliers to provide us with a wide range of raw materials, such as hot-rolled steel coil, aluminium, glass and electronic control. In line with market practices, we outsource certain production processes, such as powder coating to subcontractors. Some of our branded home and small kitchen appliances and other products are also manufactured and supplied to us by our contract manufacturers. Any disruption to our supply chain could impair our ability to manufacture and/or supply products to our customers as scheduled. We expect our demand for raw materials and outsourcing services to increase as we expand our business scale, and we cannot guarantee that our current suppliers will have the capacity to meet our standards and demand in the future.

Among our five largest suppliers in each of FY2023, FY2024 and FY2025, four, three and four were suppliers of raw materials and components with purchase amounts of RMB35.1 million, RMB35.7 million and RMB39.1 million, respectively, representing 14.9%, 12.2% and 13.3% of our cost of sales for the same periods, respectively. If our relationship with key suppliers deteriorates or terminates, or if our key suppliers face operational difficulties that hinder their ability to provide raw materials or services on time and with consistent quality, our ability to deliver products to customers in a timely manner could be impacted. In such cases, we cannot assure you that we will be able to identify an alternative qualified supplier in a timely manner, which would materially and adversely affect our business, financial condition and results of operations.

Our profitability also depends in part on our ability to source raw materials at competitive prices. Raw materials used in our products are subject to price volatility caused by external conditions, such as market supply and demand, changes in governmental policies and natural disasters. The raw materials of our products mainly include hot-rolled steel coil, aluminium and glass, which, according to F&S, their supply and prices fluctuated from 2020 to 2025. For details, please refer to the section headed "Industry Overview – Prices of Key Raw Materials" in this document. Any unforeseen changes in raw material costs could adversely affect our profitability and results of operations. In FY2023, FY2024 and FY2025, our cost of raw materials was approximately RMB157.8 million, RMB184.5 million and RMB197.5 million, respectively, representing 68.9%, 68.3% and 68.2% of our total cost of sales in the same respective periods. If we are unable to obtain raw materials at competitive prices, our product quality and profit margins could be adversely affected.

Fluctuations in logistic costs may have a material adverse effect on our operating results and profitability.

During the Track Record Period, all of our products were delivered to our customers via either third-party logistics service providers or through e-commerce marketplace's fulfillment services. In FY2023, FY2024 and FY2025, our logistics costs amounted to approximately RMB36.5 million, RMB41.6 million and RMB47.3 million, respectively, representing 15.9%, 15.4% and 16.4% of our total cost of sales for the same periods, respectively. Disputes in or terminations of contractual relationships with one or more of our logistics service providers could result in delayed delivery of products or increased costs. In addition, during the Track Record Period, we cooperated with Amazon under their "Fulfillment by Amazon (FBA)" arrangements, under which Amazon handled the receiving of, packing of, shipping of, customer services and returns for orders. We cannot assure you that we will be able to continue our relationships with our current logistics service providers on terms acceptable to us, or we will be able to establish relationships with new logistics service providers, which may inhibit our ability to offer products in sufficient quantities, on a timely basis, or at prices acceptable to our customers. Moreover, there are also factors beyond our control, including potential suspension and closure of services by logistic service providers, increases in labor costs or shortages of labor for these service providers, and unexpected events such as natural disasters or pandemics that could restrict the free movement of goods around the regions where our customers are located, among others. As a result, our results of operations and profitability could be materially and adversely affected.

Our business relies on the protection and enforcement of our intellectual property rights, and any failure to adequately protect these rights or any infringement by third parties could materially and adversely affect our brand, reputation and business operations.

We consider our trademarks and brand name to be material to our business. As of the Latest Practicable Date, we had over 210 trademarks worldwide and over 120 registered patents in the PRC. If we are unable to adequately protect these intellectual property rights, we may lose these rights, our brand image may be harmed and our competitive position and business may suffer. We cannot assure you that our own designs, trademarks and patents and other intellectual property rights that we have will not be misappropriated despite the precautions and measures that we have taken to protect those rights.

While our suppliers, subcontractors, contract manufacturers and employees are subject to contractual obligations to protect intellectual property rights of us, there is no assurance that such measures will effectively prevent leakage of confidential information or infringement of intellectual property rights, or at all. Although we enter into employment agreements with confidentiality, non-compete covenants and intellectual property ownership clauses with our employees, we cannot assure you that these agreements will not be breached, that we will have adequate remedies for any breach in time or at all, or that our brand, know-how or other intellectual property will not otherwise become known to third parties. Any breach of the confidential clause or agreements by employee, or any infringement of our intellectual property by our suppliers, subcontractors, contract manufacturers and employee may have adverse effect on our business, reputation and results of operations. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive position.

In the event that our measures and precautions we have taken do not adequately safeguard our customers' intellectual property rights or at all, customers may initiate legal proceedings against us or even reduce or discontinue their business relationship with us, which would have a material adverse effect on our business, financial condition and results of operations.

We may be subject to intellectual property infringement claims.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. We may from time to time be subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our products, services, or other aspects of our business without our awareness. If any third-party infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

Our business has continued to grow in recent years and so has our business network and number of employees. As we expand our product portfolio, customer base and geographical markets, we will need to work with a larger number of suppliers and partners efficiently to whom we have to maintain and expand mutually-beneficial relationships with. We also need to continuously enhance and upgrade our infrastructure and technology, improve control over our operational, financial and management aspects, strengthen our suppliers and sales network management, refine our reporting systems and procedures and expand, train and manage our growing employee base. All these efforts will require significant managerial, financial and human resources. We cannot assure you that such efforts will reach our expected success. We cannot assure you that we will be able to effectively manage our growth, that our current infrastructure, systems, procedures and controls or any new measures to enhance them will be adequate and successful to support our expanding operations or that our strategies and new business initiatives will be executed successfully. In addition, changes and developments taking place in industries that we operate in may also require us to re-evaluate our business model and adopt material changes to our long-term strategies and business plans. Our failure to innovate and adapt to these changes and developments may have a material adverse effect on our business, financial condition and results of operations. Even if we innovate and adapt to these changes and developments, we may nevertheless fail to realize the anticipated benefits of changes adopted to our long-term strategies and business plans or even harm our profitability as a result.

Failure by us, the e-commerce marketplaces where we sell our branded products, or our third-party service providers to maintain data security, or any non-compliance with evolving legal requirements on data protection by us could have a material adverse effect on our operations and profitability.

We have access to personal data belonging to our customers in our day-to-day operations, including partially removed or obscured names, addresses, phone numbers and other contact information for order fulfilment in connection with the sales of our branded products on e-commerce marketplaces and our own online store. Ensuring the proper use and protection of these data is crucial to maintaining customer trust and confidence in our services. However, there are potential risks associated with data breaches and hacking attempts on the systems of e-commerce marketplaces that we collaborate with. Such incidents could compromise the technology used to safeguard personal data, making it vulnerable to illegal access by third parties, including hackers and other malicious entities. These unauthorized individuals or entities may misuse the personal data they obtained and engage in various illegal activities. While we have adopted security policy and measures, there remains a possibility that personal data could be misappropriated despite our efforts. Moreover, as we engage third-party services provider, such as logistic service providers for order fulfilment, they also gain access to our customers' personal data. Our limited control over these third parties makes it difficult for us to ensure sufficient and effective safeguard of data security. In the event of a data breach by these third-party providers, we may also suffer reputational damage, which in turn could have a negative impact on our business operations.

Moreover, in recent years, practices regarding the collection, use, storage, transmission and security of personal data have faced increased public scrutiny. The relevant regulatory frameworks worldwide are rapidly evolving, and new laws and regulations on data protection and policy may be adopted in different countries where we have operation.

As these laws and regulations increase in number and complexity, we cannot assure you that our data protection systems will always be considered sufficient or effective under all applicable laws and regulations. Furthermore, we cannot assure you that our customers' data collected via the e-commerce marketplaces and processed by our suppliers is always collected and transmitted in strict compliance with relevant laws and regulations by such e-commerce marketplaces and suppliers. Moreover, there could be new laws, regulations or industry standards that require us to acquire additional licenses, change our data handling practices and privacy policies, and we may also be required to put in place additional mechanisms ensuring compliance with new data protection laws, all of which may increase our compliance costs and materially impact our business, prospects, financial condition and results of operations. Any potential or perceived non-compliance with data related laws and regulations may restrict our ability to use or provide certain products and services. It may also result in fines or other penalties, such as changing our business model, suspending our online sales, or halting operations completely, alongside potential reputational damages or legal actions from regulatory authorities, customers or others. Such outcomes could materially and adversely affect our business, results of operations and financial condition.

Our sales and results of operations are subject to seasonality.

Our business performance may fluctuate from period to period due to various factors, including the seasonal shopping and consumption habits. For instance, we generally have higher sales during festivals, holidays and promotional activities from our partner e-commerce marketplaces or on our own online store, in particular Thanksgiving, Black Friday, and Christmas. We believe that our results of operations will continue to experience seasonal fluctuation affected by the seasonal consumption pattern in the future. Therefore, comparing our results of operations across different periods of a given year to assess our business performance may not be meaningful and should not be relied upon as indicator of our future performance. Furthermore, if our operations are disrupted or affected by unpredictable events during these festive seasons, our business, financial condition and results of operations would be adversely affected.

Our operations may be disrupted by factors beyond our control.

Currently, we have a production facility in Foshan, Guangdong Province, the PRC. At the same time, a substantial part of our inventory is stored at our overseas leased warehouses or third-party warehouses under e-commerce marketplaces fulfilment service before they are delivered to our customers. Natural or man-made disasters (such as severe weather, fire, technical or mechanical failures, storms, explosions, earthquakes, strikes, terrorist activities, wars and outbreaks of epidemics) or other disruptions (such as power and water outages) could cause significant damage to our production and warehousing facilities, and resuming their operations could be costly and time-consuming. Until the affected facilities are available and operational, we may incur additional costs and may face disruptions in the supply of our products.

Moreover, these force majeure events, such as threat of floods, earthquakes, dust storms, snowstorms, fires or droughts, could cause power, water or fuel shortages, malfunctions, breakdowns and failures of information management systems. War or terrorism could also injure our employees, cause loss of life, disrupt our business operations and impair our markets. Any of these factors, as well as other factors beyond our control, could materially and adversely affect the overall business sentiment and environment, lead to uncertainty in the regions in which we operate, cause our business to suffer losses that we cannot predict.

Failure to make adequate contributions for employee benefit plans may subject us to penalties.

Companies operating in China are required to participate in certain statutory employee benefit plans, including social insurance and housing provident funds, alongside with others. Contributions to these plans are calculated as certain percentages of the employee salaries up to a maximum amount which varies as specified by local governments. During the Track Record Period, we did not make sufficient social insurance and housing provident fund contributions for some of our employees. For further details, please refer to the section headed "Business – Legal Proceedings and Compliance – Non-compliance" in this document. Pursuant to the relevant PRC laws and regulations, in the event that local authorities determine our contributions to social insurance do not comply with the requirements under the relevant PRC laws and regulations, administrative authorities may require us to pay the shortfall amounts within a prescribed time period plus an overdue charge calculated as 0.05% of the shortfall amount for each day of delay. Should we fail to clear these dues within the prescribed deadline, we may be liable for a fine, which could range from one to three times the unpaid amount. In addition, if any of the relevant housing provident fund authorities is of the view that our contributions to the housing provident fund do not satisfy the requirements under the relevant PRC laws and regulations, it may order us to pay the outstanding amounts within a prescribed period. Failure to comply with this deadline could result in compulsory enforcement by a PRC court.

In the event that we are required to pay the outstanding of social insurance and housing provident funds or be penalized as a result of our failure to make contribution to the social insurance and housing provident funds in respect of all of our employees by relevant governmental authorities, our operating expenses will increase and consequently our results of operations and financial condition will be adversely and materially affected.

As of the Latest Practicable Date, no demands for payment of shortfall amounts have been received from competent authorities. However, there is no guarantee that such demands or employee complaints regarding outstanding social insurance and housing provident fund contributions will not arise in the future. Non-compliance with these regulations could lead to rectification orders, fines, overdue charges, and other regulatory actions. Such outcomes could adversely affect our business, results of operations and financial condition.

Our insurance coverage may not provide our Group with adequate protection against risks related to our business and operations.

We maintain insurance policies to cover potential product liabilities and potential safety issues relating to our production. For more details, please refer to the section headed "Business – Insurance" in this document. Our Group may be exposed to claims in respect of matters that are not covered by the insurance policies we maintain. Most of our insurance policies are subject to standard deductions, exclusions and limitations. We believe these insurance policies are generally in accordance with customary industry practices, including deductibles and limits of coverage, but we cannot be fully insured against all potential hazards incidental to our business, including losses resulting from business interruptions or all potential losses, including damage to our reputation.

If we were to incur significant liabilities for which we are not fully insured, it may have an adverse effect on our results of operations and financial condition. As a result of market conditions, premiums and deductibles for certain insurance policies may increase substantially and, in some instances, certain insurance policies may become unavailable at a reasonable cost or available only for certain risks. If we were for any reason no longer covered by our existing insurance policies, we may not be able to obtain alternative insurance policies at acceptable terms or at all, which may have an adverse effect on our results of operations.

With respect to losses and claims which are covered by insurance policies, the process for us to recover such losses from insurers may be lengthy and complicated. We may not be able to recover the full amount of such losses from the insurers. There is no assurance that insurance policies would be sufficient to cover all potential losses, regardless of the cause, or that we can recover such losses from the insurers.

To address any environmental, social and governance risks, we may incur additional costs, which may materially and adversely affect our financial performance.

To identify, manage, and mitigate environmental, social and corporate governance ("**ESG**") risks, we may incur additional costs and expenses which could impact our financial performance. For instance, we acknowledge the potential environmental impact associated with sourcing our products. The manufacturing process of our contract manufacturers consumes a substantial amount of energy and exerts pressure on environmental protection efforts. As a result, to address this impact, we may need to prioritize sustainable practices throughout our supply chain, which may involve implementing energy-efficient measures and collaborating with our suppliers to explore the use of eco-friendly materials. This commitment may entail incurring substantial additional costs and potentially impact our profitability. For details, please refer to the section headed "Business – Environmental, Social and Corporate Governance" in this document. In addition, the increasing ESG-related regulatory requirements, including various ESG disclosure mandates in the jurisdictions where we operate, may lead to rising compliance costs and cost of sales may rise. Failure to adapt to new regulations or meet evolving industry expectations and standards could result in consumers choosing products from our competitors, which may materially and adversely affect our results of operations and financial conditions.

Failure to maintain optimal inventory levels may increase our operating costs or lead to unfulfilled customer demands, either of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Maintaining optimal inventory levels is important to the success of our business. As of 31 December 2023, 2024 and 2025, we had inventories of approximately RMB38.9 million, RMB61.5 million and RMB54.2 million, respectively, representing approximately 23.9%, 27.7% and 20.0% of our total current assets, respectively. Our inventory turnover days were approximately 62.5 days, 68.0 days and 73.0 days in FY2023, FY2024 and FY2025, respectively. For details, please refer to the section headed "Financial Information – Description of Selected Key Items of our Consolidated Statements of Financial Position – Inventories" in this document.

We are exposed to inventory obsolescence and inventory shortage risks due to a number of factors beyond our control, including changing consumer trends and customer preferences, the inherent uncertainty of success of products launches and the introduction of competitive products. Inventory levels in excess of demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would have an adverse effect on our profitability. We have inventory write-down of approximately RMB0.8 million, RMB0.2 million and RMB0.6 million in FY2023, FY2024 and FY2025, respectively. In addition, if we underestimate demand for our products, we may experience inventory shortages which may, in turn, result in unfulfilled customer demands, leading to a negative impact on customer experiences and our reputation. Any of the above may materially and adversely affect our business, financial condition and results of operations. As we plan to continue to expand our offerings, we may continue to face challenges in effectively managing our inventory.

Any quality issues associated with our products may result in lost customers and sales, product recalls and increased compliance costs, and we may face product liability claims if the issues are related to our products.

The success of our business depends on the continued delivery of quality and reliable products. We cannot assure you that our quality controls will be effective at all times, and we may face returns or cancellation of orders and customer complaints if the quality of any of our products deteriorates for any reason, or if consumers believe that our products do not deliver the claimed results.

If our products are defective or adversely affect the overall cause of consumer property damage or personal injury, we may be subject to product liability claims or product recalls that could cause financial and reputational harm. We cannot guarantee that such recalls will not occur or such claims will not be filed against us in the future. A substantial claim or a substantial number of claims against us, if successful, would have a material adverse effect on our reputation, business, financial condition and results of operations. Any product recalls or any claims against us, regardless of merit, can strain our financial resources and consume the time and attention of our management. Even if we ultimately prevail, we may be required to incur substantial costs in defending such legal claims. In addition, consumers' perception of our products and their willingness to purchase them may be adversely affected, regardless of whether the quality problems are related to us.

Our global transfer pricing model may be subject to challenges raised by tax authorities in different countries.

Our Company's tax position may be subject to be reviewed or possibly challenged by the relevant government authorities in the jurisdictions in which we have operations. We may also receive ordinary-course inquiries from the relevant tax authorities from time to time. The relevant tax laws, regulations or policies may also be subject to possible changes from time to time. There can be no assurance that our Company will not be found to be operating in breach of the relevant tax and transfer pricing laws and regulations, or that such laws will not be modified, which, as a result, may require changes to our Company's tax and transfer pricing arrangements. Any determination of income reallocations or modifications of the relevant tax and transfer pricing laws and regulations could result in an income tax assessment and other relevant charges on the portion of income deemed to be derived from the taxing jurisdiction that so reallocates the income or modifies its relevant tax and transfer pricing related laws. Any of these factors may materially and adversely affect our Company's financial position and results of operations.

We are subject to various risks relating to third-party payments.

During the Track Record Period, we had one customer (the "**Relevant Customer**") settled their payments with us through third-party payors (the "**Third-Party Payor(s)**", and such arrangement(s), the "**Third-Party Payment Arrangements**"). For FY2023, FY2024 and

FY2025, the amount of third-party payments accounted for nil, nil and approximately 0.4% of our total revenue, respectively.

We were subject to various risks relating to such Third-party Payment Arrangements during the Track Record Period, including but not limited to (i) being exposed to risks that funds we receive may be illegally gained proceeds due to our limited background knowledge of the parties involved in the Third-Party Payment Arrangements and the source of funds for the third-party payments; (ii) possible claims from the Third-Party Payors for return of funds as they were not contractually indebted to us and possible claims from liquidators of the Third-Party Payors. In the event that any funds received by the Group from the Relevant Customer were in fact illegally gained proceeds, we may be subject to governmental inquiries, enforcement actions, prosecuted, or otherwise held secondarily liable for aiding or facilitating the illegal activities which generated those illegally gained proceeds. In the event of any claims from the Third-Party Payors or their liquidators, or legal proceedings (whether civil or criminal) instituted or brought against us in respect of the Third-Party Payment Arrangements, we will have to spend significant financial and managerial resources to defend against such claims and legal proceedings, or we will be forced to comply with any court rulings to return the payment which was paid for the services that we provided. In addition, we cannot assure you that we will not be subject to any fines or penalties resulting from Third-Party Payment Arrangements. Even if we receive court rulings favorable to us, our reputation, our business relationship with our existing customers and our ability to attract new customers may be adversely affected. Our business, financial condition and results of operations may as a result be adversely affected. For further details, please refer to the section headed "Business – Third-Party Payment Arrangements" in this document.

Our expansion of the production facilities may not be as successful as we have planned.

To meet the increasing demand for our ODM and branded businesses, we intend to build a new production base in Foshan, Guangdong Province, the PRC to expand our production capacity. For details, please refer to the sections headed "Business – Our Strategies" and "Future Plans and **[REDACTED]**" in this document. The construction and completion of the new production base involve regulatory approvals and reviews by various authorities in the PRC, including, but not limited to, urban planning, construction and environment authorities. We cannot assure you that we will be able to obtain all of the required approvals, permits and licenses. Construction of the new production base and relocation of our existing production lines to the new production base also may not be completed on the anticipated timetable or within budget. We may also be unable to fully utilize the production capacity after the new production base has commenced operation. Any inability or material delay in commencing operations at the new production base, or any substantial increase in cost to complete the production facilities or ramp up operation and utilization, could materially and adversely affect our results of operations and prospects and result in loss of business opportunities.

Fluctuations in currency exchange rates may lead to volatility in our results of operations.

Our export sales outside of the PRC are conducted in the local currencies of the respective countries or regions. On the other hand, our costs, including our transactions with suppliers are generally denominated in Renminbi. We convert these foreign currencies into Renminbi from time to time. This process exposes us to the risk arising from fluctuations of Renminbi relative to other currencies. Any appreciation or depreciation of Renminbi against foreign currencies could result in gains or losses from foreign currency conversion transactions. Moreover, we prepare our consolidated financial statements in RMB for reporting purposes. Assets and liabilities denominated in foreign currencies, such as the U.S. dollar and Euro, are translated into Renminbi at the exchange rate effective at the end of the reporting period. This translation process can lead to recognized gains or losses in our profit or loss, directly affecting our results of operations.

Regulatory actions, legal proceedings, and customer complaints against us could harm our reputation and have a material adverse effect on our business, results of operations, financial condition and prospects.

Along with the growth and expansion of our business, we may be involved in litigation, regulatory proceedings, and other disputes arising outside the ordinary course of our business. Such litigation and disputes may result in claims for actual damages, freezing of our assets, diversion of our management's attention and reputational damage to us and our management, as well as legal proceedings against our Directors, officers, or employees, and the probability and amount of liability, if any, may remain unknown for long periods of time. Given the uncertainty, complexity and scope of many of these litigation matters, their outcome generally cannot be predicted with any reasonable degree of certainty. Therefore, our reserves for such matters may be inadequate. Moreover, even if we eventually prevail in these matters, we could incur significant legal fees or suffer significant reputational harm, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our employees are at risk of serious injury from the use of production equipment and machinery.

We use heavy machinery and equipment in our production processes that are potentially dangerous and could result in personal injury to our employees. The safety training we provide to our employees may not be effective in preventing accidents from occurring. Any major accident resulting from the use of equipment or machinery may cause disruption to our production, damage to our corporate image, and legal and regulatory liability. Although we carry employee accident insurance, as well as workers' compensation and medical insurance, the coverage may not be sufficient to offset losses arising from claims related to such accidents. In addition, potential industrial accidents resulting in substantial property damage, loss of life or injury may expose us to claims and litigation, and we may be liable for medical expenses and other payments to employees and their families and may be subject to fines or penalties. As a result, our reputation, brand, business, financial condition, results of operations and prospects could be materially and adversely affected.

The success of our business depends on our ability to attract, train and retain highly skilled employees and key personnel.

Our success depends, to a significant extent, on the capability, expertise and continued services of our key personnel, including, among others, key executives and product development personnel. We rely on the expertise and experience of our key personnel in developing business strategies, product development, business operations and maintaining relationships with customers. If we lose the services of any of our key personnel, we may not be able to find a suitable replacement with comparable knowledge and experience. We may not be able to attract or retain all the key personnel we need. We may also need to offer better remuneration and other benefits to attract and retain key personnel, and therefore, we cannot assure you that we will have the resources to fully achieve our staffing needs or that our costs and expenses will not increase significantly as a result of increased talent acquisition and retention cost. Our failure to attract and retain competent personnel and any increase in staffing costs to retain such personnel may have a negative impact on our ability to maintain our competitive position and grow our business. If this occurs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We are required to obtain certain permits, licenses, certificates and other approvals to operate our business, failure to obtain which may materially and adversely affect our operations and results.

We are subject to various laws and regulations of different jurisdictions in which we operate and are required to obtain and comply with various permits, licenses, certificates, consents and other approvals from administrative authorities. We may also be subject to inspections, examinations, inquiries and audits by governmental authorities as part of the process of maintaining or renewing our permits, licenses or certificates. There can be no assurance that we will be able to fulfil the pre-conditions necessary to obtain the required governmental approvals or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to our operations. There may be delays on the part of relevant administrative bodies in reviewing our applications and granting approvals. In the event we are not able obtain necessary licenses, certificates, consents or approvals, we may not be able to carry on with our business operations and thus our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to continue our revenue growth and maintain profitability as expected.

We have experienced continued revenue growth during the Track Record Period. Our revenue increased from approximately RMB363.6 million in FY2023 to approximately RMB447.5 million in FY2024, and further increased to approximately RMB493.8 million in FY2025. However, there is no assurance that we can sustain this revenue growth or maintain profitability in the future. Our ability to do so depends on various factors, including the consistent sales of our existing products, the successful launches of our new products, the effective execution of our business strategies, the competitive landscape in various geographic markets where we operate, customer preferences and the broader macroeconomic and regulatory environment. Moreover, we expect our cost of sales and operating expenses to increase as we continue to grow our business, diversify our product offerings, expand into new geographic markets and invest in our production infrastructure. While we may be able to sustain our revenue expansion, there remains the possibility that this growth may not occur at the projected rate, or, alternatively, it might prove inadequate to offset the rise in our cost of sales and operating expenses, thereby leading to a state of unprofitability.

We may not continue to receive preferential tax treatment currently available to us, and the increase in enterprise income tax could decrease our net income and materially and adversely affect our financial condition and results of operations.

The rate of income tax assessable on companies in China may vary depending on the availability of preferential tax treatment or subsidies granted to the specific industries or locations. Under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**EIT Law**") and its relevant regulations, PRC companies are typically subject to an income tax rate of 25% under the EIT Law. During the Track Record Period, our Company qualified as a High and New Technology Enterprise (高新技術企業) and was subject to a preferential income tax rate of 15%. For FY2023, FY2024 and FY2025, benefiting from the preferential income tax rate, our effective income tax rate, which was calculated by dividing our income tax expense of each year by our profit before tax of the corresponding year, was approximately 7.0%, 15.7% and 7.0% in FY2023, FY2024 and FY2025, respectively. The High and New Technology Enterprise Certificate (高新技術企業證書) was obtained in 2015 and subsequently renewed in 2025, which will expire in 2028. In the event that our Company fails to renew its qualification as a High and New Technology Enterprise (高新技術企業), it would not be able to enjoy the relevant preferential tax treatment. The PRC government or provincial government could also eliminate or reduce the preferential tax treatment in the future, which, would lead to an increase in our effective tax rate. Upon the eventual lapse of any preferential tax treatments, our effective tax rate will also increase in the future. As a result, our financial condition and results of operations could be materially and adversely affected.

Our information technology systems may experience system failures, interruptions or security breaches.

Our business operations rely on our information technology systems for various functions. These systems are critical for maintaining operational efficiency, data accuracy and timely decision-making. However, our information technology systems are subject to various risks, including system failures, data inaccuracies, cyber-attacks, data breaches and other security incidents. Any such event could disrupt our operations, compromise our data and result in significant remediation costs, legal liabilities and reputational damage. Furthermore, our information technology systems need to be regularly updated and upgraded to keep pace with technological advancements and changing business needs. These updates and upgrades require significant investment and may cause system disruptions or compatibility issues. In the event of any system failure, interruption or security breach, our operations could be disrupted and our business and results of operations may be materially and adversely affected depending on the length and extent of such event.

RISKS RELATED TO DOING BUSINESS IN THE JURISDICTIONS WHERE WE OPERATE

Failure to respond to changes in the economic or social conditions or government policies in the jurisdictions where we operate, as well as the global economy, could affect our business, financial condition and results of operations.

A substantial proportion of our business operations are conducted in the PRC, and, at the same time, we export our products to a number of overseas jurisdictions such as Europe, South America and North America. For more information, please refer to the section headed "Business" in this document. Accordingly, our business, financial condition and results of operations are subject to economic and social conditions and government policies in these overseas markets.

Relevant factors of the global economy that could affect our business include consumer, corporate and government spending, business investment, levels of economic development and resource allocation. Nevertheless, new laws, rules and regulations relevant to our business may be introduced in the future, or the current applicable regulations may otherwise be amended or replaced, requiring us to conduct business with additional oversight and regulatory compliance. In particular, any change in the applicable laws, rules and regulations could require us to obtain additional licenses, permits, approvals or certificates, increase our operational expenses or result in the invalidation of licenses, permits, approvals or certificates we currently have.

Newly promulgated laws and regulations may be subject to further variations in application, interpretation and implementation. As a result, we may not be aware in a timely manner that we have violated certain policies and rules. There can be no assurance that we will be able to adapt to the evolving regulatory environment swiftly enough or in a cost-efficient manner, failure of which may adversely affect our operations and lead to substantial compliance costs. Meanwhile, we may need to implement changes in our facilities, equipment, personnel or services to comply with the latest laws and regulations, which may increase our capital expenditures and operating expenses, thereby adversely affecting our business, financial condition and results of operations.

We may be subject to the approval, filing or other requirements of the CSRC or other PRC governmental authorities in connection with the [REDACTED] and future capital raising activities.

On 17 February 2023, the CSRC promulgated the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Overseas Listing Trial Measures**") and five supporting guidelines, which took effect on 31 March 2023. Pursuant to the Overseas Listing Trial Measures, domestic companies that seek to offer listing securities and list overseas, both directly and indirectly (the "**Overseas Offering and Listing**"), should fulfil the filing procedure and report relevant information to the CSRC. In addition, the Overseas Listing Trial Measures require that subsequent securities offering of an issuer in the same overseas market where its securities have been offered and listed shall be filed with the CSRC within three working days after the offering is completed, and subsequent securities offerings and listings of an issuer in overseas markets other than where its securities have been offered and listed shall be filed with within three working days after such application is submitted. The Overseas Listing Trial Measures also require subsequent reports to be filed with the CSRC on material events, such as change of control, the investigation, sanction or other measures undertaken by any foreign securities regulatory agencies or relevant competent authorities in respect of the issuer, change of the listing status or transfer of the listing board or voluntary or forced delisting of the issuer(s) who have completed overseas offerings and listings. For details, please refer to the section headed "Regulatory Overview – Relevant Laws and Regulations in the PRC – Regulations related to overseas securities offering and listing and full circulation – Regulations on overseas securities offering" in this document.

On 24 February 2023, the CSRC, the MOF, the National Administration of State Secrets Protection and the National Archives Administration of China jointly promulgated the Provisions on Strengthening the Confidentiality and Archives Administration Concerning the Overseas Securities Offering and Listing by Domestic Enterprises (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the "**Confidentiality and Archives Administration Provisions**"), which became effective on 31 March 2023. The Confidentiality and Archives Administration Provisions require that domestic enterprises involved in overseas securities offerings and listings, as well as the securities companies and securities service institutions providing relevant services, must strictly comply with requirements on confidentiality and archives management. The interpretation and implementation of the Confidentiality and Archives Administration Provisions may keep evolving, and failure to comply may materially affect our business.

We plan to file with CSRC within the time limit as required by the Overseas Listing Trial Measures. Meanwhile, we are also required by the Overseas Listing Trial Measures to report or file with the CSRC for our future offerings or any material events. However, we cannot assure you that we will be able to complete the required procedures and fully comply with these regulations in a timely manner, or at all. We also cannot assure you that we would be able to complete all the requirements to the extent subsequently required by the relevant regulatory authorities, in a timely manner, or at all, or that completion of any additional compliance requirements would not be imposed. Furthermore, we cannot assure you that new laws, rules or regulations will not be promulgated in the future that would impose additional requirements on us.

Any failure to complete or delay in completing such filing or report procedures for the **[REDACTED]** or future financing activities, or a rescission of any such filings completed by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities, which could include fines and penalties on our operations in China, and other forms of sanctions that may materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our H Shares.

Evolving legal systems of certain geographic markets where we operate could affect our business, financial condition and results of operations

Legal systems of the geographic regions where we operate vary significantly from jurisdiction to jurisdiction. Some jurisdictions have a civil law system based on written statutes and others are based on common law. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. The legal systems of some geographic regions where we operate are consistently evolving. Laws and regulations that are recently enacted may not sufficiently cover all aspects of economic activities in such markets. In particular, the enforcement of these laws and regulations are subject to future interpretation and implementations. Since local administrative and court authorities are authorized to interpret and implement statutory provisions and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we have in many of the geographic markets where we operate.

The governments of our geographic regions may, on many occasions, introduce new laws, rules and regulations relevant to our businesses and amend or replace the current applicable regulations, requiring us to conduct business with newly enacted oversight and regulatory compliance. Additionally, any developments in the applicable laws, rules and regulations in the future could require us to obtain newly enacted licenses, permits, approvals, or certificates, increase our operational expenses, or impose additional compliance requirements, which could affect our business and operations. Scrutiny and regulations of the industries in which we operate may further increase, and we may be required to devote additional legal and other resources to addressing these regulations. Changes in current laws or regulations or the imposition of new laws and regulations in our geographic markets may slow the growth of our industries and affect our business, financial condition and results of operations.

Holders of our H Shares may be subject to PRC income tax obligations and dividends distributed may be subject to PRC taxes.

Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》) (國税函[2011]348號) dated 28 June 2011 and issued by the STA, the tax rate applicable to dividends paid to non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares ("**Non-PRC Resident Individual Holder(s)**") varies from 5.0% to 20.0%, depending on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the Non-PRC Resident Individual Holder of H Shares resides, as well as the tax arrangement between the PRC and Hong Kong. Non-PRC Resident Individual Holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. In addition, under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得税法》) and its implementation regulations, Non-PRC Resident Individual Holders of H Shares are subject to individual income tax at a rate of 20.0% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得税的通知》) issued by the MOF and the STA on 30 March 1998, gains of individuals derived from the transfer of listed shares of enterprises may be exempt from individual income tax.

Under the EIT Law of the PRC (《中華人民共和國企業所得税法》) and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10.0% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company. This rate may be reduced under any special arrangement or applicable treaty between the PRC and the jurisdiction in which the non-PRC resident enterprise resides.

Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(國税函[2008]897號)) promulgated by the STA on 6 November 2008, the withholding tax rate for dividends payable to non-PRC resident enterprise holders of H Shares will be 10% and we intend to withhold tax at 10% from dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval.

Despite the arrangements mentioned above, the interpretation and application of applicable PRC tax laws and regulations by the competent tax authorities shall be in accordance with the then effective laws and regulations, and new taxes may be imposed which may adversely affect the value of your investment in our H Shares.

You may have limited recourse in effecting service of legal process or enforcing foreign judgments against us, our Directors and our senior management.

We are a joint stock company limited by shares incorporated in China. The majority of our Directors and senior management reside within mainland China, and substantially all of our and their assets are located within the PRC. Therefore, it may be difficult for investors to directly effect service of legal process upon us or our Directors and senior management outside the PRC. In addition, investors may also experience difficulties in enforcing judgments due to the lack of reciprocal recognition and enforcement of judicial rulings and awards of other jurisdictions.

You should assess the legal protections you are entitled to under the legal systems where we operate.

We are subject to the different applicable laws and regulations of the countries and regions where we operate. Our business and operations in China are subject to primarily written statutes, and prior court decisions offer limited precedential value. Furthermore, we cannot assure you that we can predict the effect of future legal developments in countries and regions where we operate, including the promulgation of new laws and changes in existing laws. In addition, lengthy legal proceedings may incur significant costs, divert our resources, and negatively affect our management's focus on strategic planning and execution, which may materially and adversely impact our operational efficiency and overall business performance.

We are subject to the currency exchange regulations.

The conversion of RMB is subject to applicable laws and regulations in the PRC. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange regulation system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business.

Under existing foreign exchange regulations, following the completion of the **[REDACTED]**, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements, or to capitalize our capital expenditure plans, and even our business, operating results and financial condition may be affected.

Payment of dividends is subject to PRC laws and regulations.

Under PRC laws, dividends may be paid only out of distributable profits. Distributable profits are defined as our profits after taxes as determined under PRC GAAP less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient, if any, distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRSs in certain respects, our subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRSs, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our subsidiaries to pay dividends to us could have a negative impact on our cash flows and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our H Shares, and their liquidity and market price may be volatile, which could result in substantial losses to you.

Prior to the completion of the **[REDACTED]**, there has been no public market for our H Shares. The **[REDACTED]** for our H Shares to the public will be the result of negotiations between us and the **[REDACTED]** (for itself and on behalf of the **[REDACTED]**), and the **[REDACTED]** may differ significantly from the market price of our H Shares following the **[REDACTED]**. We have applied to the Stock Exchange for the **[REDACTED]** of, and permission to **[REDACTED]** the H Shares. A **[REDACTED]** on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our H Shares will develop, or if it does develop, that it will be sustained following the **[REDACTED]**, or that the market price of our H Shares will not decline following the **[REDACTED]**.

Furthermore, the price and trading volume of our H Shares may be volatile. The following factors, among others, may cause the market price of our H Shares after the **[REDACTED]** to vary significantly from the **[REDACTED]**: (i) variations in our revenue, earnings and cash flow; (ii) unexpected business interruptions resulting from natural disasters or power shortages; (iii) major changes in our key personnel or senior management; (iv) our inability to obtain or maintain regulatory approval for our operations; (v) our inability to compete effectively in the market; (vi) political, economic, financial and social developments in China and Hong Kong (China) and in the global economy; (vii) fluctuations in stock market prices and volume; (viii) changes in analysts' estimates of our financial performance; and (ix) involvement in material litigation.

Common to the shares of other listed companies, it is possible that our H Shares may be subject to changes in price for reasons which are beyond our Group's control and are unrelated or disproportionate to our operational performance and as a result, investors in our H Shares may suffer substantial losses.

Substantial future sales or the expectation of substantial sales of our H Shares in the public market and conversion of our Unlisted Shares into H Shares could cause the price of our H Shares to decline and could materially impair our future ability to raise capital through [REDACTED] of our H Shares.

Although our Controlling Shareholders are subject to restrictions on the sales of their H Shares within 12 months from the **[REDACTED]** as described in the section headed "**[REDACTED]**" in this document, future sales of a significant number of our H Shares by our Controlling Shareholders in the public market after the **[REDACTED]**, or the perception that these sales could occur, could cause the market price of our H Shares to decline and could materially impair our future ability to raise capital through **[REDACTED]** of our H Shares. We cannot assure you that our Controlling Shareholders will not dispose of H Shares held by them or that we will not issue H Shares pursuant to the general mandate to issue shares granted to our Directors or otherwise, upon the expiration of restrictions set out above. We cannot predict the effect, if any, that any future sales of Shares by our Controlling Shareholders, or the availability of H Shares for sale by our Controlling Shareholders, or the issuance of Shares by our Company may have on the market price of the H Shares. Sale or issuance of a substantial number of H Shares by our Controlling Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the H Shares.

We are currently applying for part of the Unlisted Shares to be converted into H Shares after the completion of the **[REDACTED]**. According to the PRC Company Law, the Unlisted Shares issued by our Company prior to the **[REDACTED]** are restricted from trading within one year from the **[REDACTED]**. Such restriction from trading will limit the number of H Shares to be circulated on the market, which will in turn adversely affect the liquidity of the H Shares during such restriction period. If our application for the circulation of our relevant Unlisted Shares on the Stock Exchange after the completion of the **[REDACTED]** is successful, any future sales (after the expiration of the restrictions set out above) of the Unlisted Shares by the relevant Shareholders in the public market may affect the market price of our H Shares. In addition, such conversion and trading must, in all aspects, comply with the regulations promulgated by the securities regulatory authority under the State Council, as well as the regulations, requirements and procedures of the Stock Exchange. Moreover, if we convert a substantial amount of the Unlisted Shares into H shares to be listed and traded in the future on the Stock Exchange, it may further increase the supply of the H shares in the market, which may adversely affect the market price of the H shares.

As the [REDACTED] of our H Shares is higher than our consolidated net tangible asset book value per Share, purchasers of our H Shares in the [REDACTED] may experience immediate dilution upon such purchases.

As the **[REDACTED]** of our H Shares is higher than the consolidated net tangible assets value per Share immediately prior to the **[REDACTED]**, purchasers of our H Shares in the **[REDACTED]** may experience an immediate dilution. Our existing Shareholders will receive an increase in the **[REDACTED]** adjusted consolidated net tangible asset value per Share of their Shares. In addition, to expand our business, we may consider offering and issuing additional Shares in the future. Holders of our H Shares may experience further dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Our Controlling Shareholders may have substantial influence over our Company and their interests may not be aligned with the interests of other Shareholders.

Our Controlling Shareholders have substantial influence over our business, including matters relating to our management, policies and decisions regarding mergers, expansion plans, consolidations and sales of all or substantially all of our assets, election of Directors and other significant corporate actions. Immediately following the completion of the **[REDACTED]**, our Controlling Shareholders will be entitled to exercise approximately **[REDACTED]**% of the voting rights of our Company. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and might reduce the price of our H Shares. These events may occur even if they are opposed by our other

Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise its substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

Our historical dividends and dividend policy may not be indicative of our future dividend policy.

We have declared dividends in the past. However, there is no assurance that dividends of any amount will be declared or distributed by us in any year in the future. Under the applicable PRC laws and regulations, the payment of dividends may be subject to certain limitations, and the calculation of our profit under PRC GAAP may differ in certain respects from the calculation under the IFRSs. The declaration, payment and amount of any future dividends are subject to the discretion of our Board, after taking into account various factors, including but not limited to our results of operations, financial condition, cash flows, capital expenditure requirements, market conditions, our strategic plans and prospects for business development, regulatory restrictions on the payment of dividends and other factors as our Board may deem relevant, and subject to the approval at Shareholders' meeting. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the applicable PRC laws and regulations. For details, please refer to the section headed "Financial Information – Dividends and Dividend Policy" in this document. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our historical dividends should not be taken as indicative of our dividend policy in the future.

We cannot assure you of the accuracy or completeness of certain facts, forecasts and other statistics obtained from official government sources contained in this document.

This document, particularly the section headed "Industry Overview", contains information and statistics relating to the industries in which we operate. Such information and statistics have been derived from various official government sources. However, our Directors cannot guarantee the reliability of such source materials. We believe that the sources of the said information are appropriate sources for such information and have taken reasonable care in extracting and presenting such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Nevertheless, information from official government sources have not been independently verified by us, the Sole Sponsor, the **[REDACTED]**, the **[REDACTED]** or any other party involved in the **[REDACTED]** and no representation is given as to the accuracy. You should therefore not place undue reliance on such information. Further, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

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

This document contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain **[REDACTED]** information and other matters. The words "aim," "anticipate," "believe," "could," "going forward," "predict," "potential," "continue," "expect," "intend," "may," "might," "plan," "seek," "will," "would," "should" and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, amongst others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in this section. Accordingly, such statements are not a guarantee of future performance and investors should not place undue reliance.

Investors should read the entire document carefully and should not consider any particular statements in published media reports without carefully considering the risks and other information contained in this document.

Prior to the publication of this document, there has been coverage in the media regarding us, the **[REDACTED]** or our Controlling Shareholders, which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the **[REDACTED]**. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this document. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.