# RISK FACTORS

*An **[REDACTED]** in our H Shares involves a high degree of risk. You should carefully consider the following information about risks, together with the other information contained in this document, including our consolidated financial statements and related notes, before you decide to **[REDACTED]** our H Shares. If any of the circumstances or events described below actually arises or occurs, our results of operations, financial performance and business prospects may suffer. In any such case, the **[REDACTED]** of our H Shares could decline and you may lose all or part of your **[REDACTED]**. This document also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including the risks described below.*

## RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

**The markets for our products are evolving, and changing market conditions, such as introduction of new technologies, or changes in customer preferences may negatively affect demand for our products. If we fail to properly anticipate or respond to changing market conditions, our business prospects and results of operations will suffer.**

The electronic fabric industry is subject to constant changes in technology, product and technology upgrade, frequent new product introductions and evolving technical standards. New technologies may be introduced that make the current technologies on which our products are based less competitive or even obsolete or require us to make changes to our technology that could be expensive and time-consuming to implement. Due to the evolving nature of our markets, our future success depends on our ability to accurately anticipate and respond to changes in industry standards, technological requirements, customer preferences and other market conditions. Our technologies could also become obsolete sooner than we expect because of faster than anticipated, or unexpected, changes in one or more of the industry standards and technological requirements. In addition, we may be unable to develop or introduce new or enhanced technologies that satisfy customer requirements and achieve market acceptance in a timely manner or at all, succeed in commercializing the technologies on which we focus our R&D expenditures to develop, or anticipate new industry standards and technological changes. The emergence of new industry standards and technical requirements could make it difficult for our products to meet the requirements from our customers. As a result, we could be required to invest significant time and efforts and to incur significant expenses to redevelop our products to ensure compliance with relevant standards and requirements. If we fail to adapt successfully to technological changes, fail to obtain access to important new technologies or adhere to prevailing industry standards and technical requirements, we may be unable to retain customers or attract new customers. Any decrease in demand for our products, due to the emergence of competing technologies, changes in customer preferences and requirements or otherwise, could adversely affect our business, results of operations and prospects.

**Failure to successfully execute our capacity expansion or upgrade plans or effectively utilize our production facilities may have a material adverse effect on our business, financial condition and results of operations.**

Our growth prospects and future profitability depend on, among other things, our ability to increase and upgrade our production capacity. We are in the process of expanding our production capacity for our electronic fabric and electronic yarn given our existing production capacity may not be sufficient to meet downstream customer demand. For details on utilization rate of each of our production facilities, see "Business — Production — Our Production Facilities." To successfully expand and upgrade our production capacity, we need to make cost-effective and efficient expansion and upgrade, and hire and train personnel necessary to operate such facilities or equipment, all of which may be affected by several factors including, but not limited to, the following:

- availability and sufficiency of working capital for constructing facilities or purchasing equipment;

- shortages or delays in the delivery of equipment or any quality defects, in particular weaving machines from overseas;
- delays in completion of construction;
- production facilities may involve the use of precious metals including platinum and rhodium, which are subject to commodity price fluctuation and may increase our capital expenditure and production cost;
- securing licenses, permits and approvals relating to our construction and capacity expansion including environmental impact assessment;
- difficulties or delays which may arise in installing the equipment; and
- implementation of new production processes.

We cannot guarantee that expansion or upgrade plan, if implemented, will be operationally or financially successful and substantiated by sufficient market demand. If we are unable to implement the upgrade or expansion plan cost-effectively and efficiently, our business and profitability may be adversely affected. In addition, if we do not receive sufficient orders from our customers to effectively utilize our production facilities, we may adjust our product portfolio to better manage our production capacity, which may compromise our profitability and results of operations. Furthermore, if market demand declines in the future, we may not be able to recoup the costs incurred for construction of any new facilities or expansion of any existing facilities and maintenance of expanded production capacity. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**We may be unable to match production with customer demand for a variety of reasons including our inability to accurately forecast customer demand, which could adversely affect our operating results.**

We make planning and spending decisions, including production levels, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimates of product demand and customer requirements. Our products are typically sold pursuant to purchase orders. While our customers may provide us with their demand forecasts, they are not contractually committed to buy any quantity of products beyond purchase orders. The possibility of unexpected changes in the demand for their products could reduce our ability to accurately estimate future customer requirements. In addition, in recent years, we have strengthened the deployment of high-end products and have been consolidating our core competitiveness to meet the major demand for electronic fabric products. Customers may require rapid increases in production, which could strain our resources, necessitating more onerous procurement commitments. If we overestimate customer demand, we may accumulate excess inventory, which could result in decreases in our prices or write-downs of unsold inventory. Conversely, if we underestimate customer demand or are unable to secure sufficient production capacity, we could miss the sales opportunities, lose the market share, be required to refund the capacity guarantee deposits or damage our customer relationships. To address potential supply shortages, and ensure stable supply, certain of our end customers entered into capacity supply agreements or term sheet with us to secure our production capacity in advance, under which such customers agreed to pay refundable deposits to lock in our special-purpose electronic fabric capacity for a period of approximately two to three years. If we cannot supply the required quantity of our products within a specific timeline, we may face default risk, be required to return the deposits or even pay penalties, which could damage our relationship with our customers and may materially adversely affect our business and results of operation. The rapid pace of innovation in our industry could also render significant portions of our inventory obsolete. Excess or obsolete inventory levels could result in unexpected expenses or inventory write-downs that could adversely affect our business, operating results and financial condition.

**Our growth is affected by the growth and development of the markets served by our downstream customers. If the underlying market does not develop as we expect, our business prospects may be harmed.**

Demand for our electronic fabric products is dependent upon, among other things, the growth of the markets served by our downstream customers, including but not limited to AI and high-performance computing, consumer electronics, automotive electronics, communication and engineering industries. We are currently focusing on these underlying industries, which are nascent and characterized by constantly changing and evolving technologies and industry standards and customer demands. The proliferation of AI technologies, among other things, have fueled the global demand for electronic fabric and electronic yarn products.

Such growth is influenced by various factors, including innovations in technology and the ongoing development of industry standards. Additionally, evolving business practices and changing consumer preferences may also slow down the growth and development of these industries. Since our revenue growth ultimately depends on the success of these sectors, our business may suffer if the market demand in downstream sectors such as AI and high-performance computing does not grow as we expect. Even if these industries do develop, we may not be well-positioned or able to penetrate and capitalize on these new markets. If the industries or the market for electronic fabric industry that we focus on do not develop as we expect, our business prospects may be harmed.

**We have been investing, and intend to continue to invest in our R&D but such investments may not yield the results we expect.**

We are in a technology-intensive industry with rapid technological development. Our research and development expenses amounted to RMB34.0 million, RMB43.6 million and RMB62.9 million in 2023, 2024 and 2025, respectively, accounting for 5.1%, 5.2% and 5.4%, respectively, of our revenue in the corresponding periods.

The electronic fabric industry is experiencing technological changes. We may need to invest significant resources in R&D to advance our technologies to remain competitive in the market. We have consistently focused on independent research and development and technological innovation. In the future, we will continue to invest in multiple R&D projects in electronic fabric and electronic yarn products. These R&D projects are characterized by large capital investment, high technical difficulty and long project cycle.

We may encounter challenges in adapting our products to new technologies or in producing high-end products such as special-purpose electronic fabric products. We may face difficulties and delays and incur increased expenses as we migrate to new designs and production processes, which in turn may result in delays in product deliveries. Therefore, we expect our research and development expenses continue to be significant. Furthermore, R&D activities are inherently uncertain. There can be no assurance that we will continue to achieve technological breakthroughs and successfully commercialize such breakthroughs. As a result, our significant expenditures on R&D may not generate corresponding benefits. If our R&D efforts fail to keep up with the latest technological developments and fail to launch new products to meet the market demand, we would suffer a decline in our competitive position. In addition, if we fail to accurately predict the market development trend or meet the needs of our customers, or if our future R&D investment is insufficient, our R&D projects may be unable to yield the results we expect. This may materially and adversely affect our business development, financial condition and results of operations.

**A fluctuation in prices of raw materials and utilities may disrupt our supply chain and affect our selling prices, and any significant disruption in the supply of raw materials could affect our business, financial condition and results of operations.**

Raw materials of our electronic fabric products mainly include electronic yarn and glass beads. Changes in the availability and prices of raw materials may have a significant impact on our results of operations. In 2023, 2024 and 2025, costs of raw materials accounted for 18.4%, 25.0% and

27.1% of our cost of sales, respectively. The current or expected supply of our key raw materials may fluctuate depending on a number of factors beyond our control, including but not limited to the availability of resources in the raw materials market, market demand, potential speculation, market disruptions, natural disasters and other factors. We cannot assure that we will not experience any price fluctuations in the future, which could materially and adversely affect our production costs and results of operations. Utilities also accounted for a meaningful portion of our cost of sales during the Track Record Period. We cannot assure that the price of raw materials and utilities will not fluctuate, which may affect our cost and business operations.

In addition, some of our suppliers may import raw materials and components from overseas regions. These imports are inherently subject to various external risks beyond our control, including but not limited to changes in international trade policies, customs procedures, tariffs, foreign exchange volatilities and geopolitical tensions. Any disruption, delay, or increased cost associated with such imported materials could erode the cost efficiency of our supply chain and thus may compromise our production schedules, increase our manufacturing costs, and adversely affect our business operations and financial position.

Our purchases from our five largest suppliers accounted for 58.6%, 63.5% and 71.2% of our total purchases in 2023, 2024 and 2025, respectively. Our purchase from the largest supplier accounted for 15.4%, 23.7% and 21.5% of our total purchases in 2023, 2024 and 2025, respectively. Any interruptions in these suppliers' operations, any failure to accommodate our fast-growing business scale, termination or suspension of supply arrangements, change in procurement terms, deterioration of cooperative relationships, or disputes with our third-party suppliers may materially and adversely affect our results of operations. Furthermore, supply may also be interrupted by accidents, disasters, geopolitical instability, sanctions or export control measures imposed by foreign governments or other unforeseen events beyond our control. We may not be able to identify and secure alternative sources on a timely basis or on commercially reasonable terms to deliver products to customers in the required quantities and at commercially viable prices and there is no guarantee that we will be able to pass on the increase in costs to customers. If we could not address the impact of interruption to the operations of our third-party suppliers, our business operations and financial results may be materially and adversely affected.

**If we fail to acquire new customers or retain existing customers, our business, financial condition and results of operations may be materially and adversely affected.**

Our electronic fabric products cover a diversified range of industries, across AI and high-performance computing, consumer electronics, automotive electronics, communication, engineering. We have invested in branding, sales and marketing to acquire and retain customers since our inception. We incurred selling and marketing expenses of RMB5.5 million, RMB6.4 million and RMB8.6 million in 2023, 2024 and 2025, respectively. There is no assurance that we are able to attract new customers and retain existing customers or that the net profits from new customers will be able to cover the expenses of acquiring them.

Revenue generated from our five largest customers accounted for 59.3%, 57.2% and 62.3% of our total revenue, and revenue generated from our largest customer accounted for 15.4%, 15.4% and 20.1% of our total revenue, in 2023, 2024 and 2025, respectively. See "Business — Our Customers" for more details. Any significant reduction in sales to our major customers could have a material negative impact on our business, financial condition and operating results. Furthermore, changes in forecasts or the timing of orders from our customers, which may be out of our control, could cause our operating results to fluctuate. Purchases from our existing customers may decline materially and their orders or their demand may fluctuate as a result of many factors, including, among other things, dissatisfaction with the performance, quality or price of our products, negative publicity related to our brand, or alternative products offered by our competitors. If we are unable to retain our existing customers or acquire new customers in a cost-effective manner, our business, financial condition and results of operations may be materially and adversely affected.

**We face competition and expect competition to increase in the future. If we fail to compete effectively, our revenue growth and results of operations will be materially and adversely affected.**

We face fierce competition from other electronic fabric providers. Some of our competitors may have greater financial and other resources with which to pursue technology development, product design, manufacturing, and marketing of their products. Increased competition could result in price pressure, reduced profitability and loss of market share, any of which could materially and adversely affect our business, revenue and operating results. Currently, our competitors include large, established and international companies which offer a wide range of electronic fabric products and technologies, as well as smaller, specialized companies that focus on specific applications within the electronic fabric field. These competitors could develop technologies that would render our products and solutions or technologies uncompetitive or obsolete.

Our ability to compete successfully depends on factors both within and outside of our control, including:

- the functionality, performance and pricing of our products relative to those of our competitors;
- our relationship with our customers and other industry participants;
- our ability to expand production capacity;
- our ability to develop innovative products, such as the special-purpose electronic fabric;
- the success of our R&D;
- our ability to retain talent; and
- the actions of our competitors, including merger and acquisition activity, new product launches and other actions that could change the competitive landscape.

Electronic fabric industry has high entry barriers, and the global market has become relatively concentrated, especially for high-end electronic fabric market. If competitors increase their investment in the markets in which we operate and we fail to increase our competitiveness or achieve technology innovation to meet our customers' needs, our industry position, market share, business, financial condition and results of operations will be adversely affected.

**Our operating history may not be indicative of our prospects and future results of operations.**

We recorded a net loss of RMB63.1 million in 2023, and had net profits of RMB22.8 million in 2024 and RMB201.9 million in 2025. We recorded gross profits of RMB48.3 million, RMB147.1 million, and RMB411.0 million in 2023, 2024 and 2025, with gross profit margins of 7.3%, 17.6% and 35.1%, respectively. Our operating results have fluctuated and may continue to fluctuate from time to time. Our future profitability will depend on a variety of factors, including the expansion of our business, product mix, performances of our products, price of raw materials, depreciation and amortization, competitive landscape, customer preference and macroeconomic and regulatory environment. We cannot assure you that we will achieve our intended profitability in the future.

We have experienced growth and expansion during the Track Record Period. Our revenues increased from RMB661.2 million in 2023 to RMB834.6 million in 2024, and further increased to RMB1,171.0 million in 2025. Our historical results may not provide a meaningful basis for evaluating our business, results of operations, financial condition and prospects. We may encounter unforeseen difficulties, complications, delays and other known and unknown factors, and may not be able to achieve satisfactory results in future periods. We cannot assure you that we will be able to achieve similar results or grow at the same rates as we did in the past. Our revenue growth may slow down or even decline in the future for a number of reasons, including slowing demand for our products, intensified competition, material changes in technology, declining growth rate of our total addressable market and our failure to continue to take advantage of growth opportunities. Our future operating results will depend to a large extent on our ability to manage our expansion and growth successfully.

We face risks in undertaking business expansion which include, among others, managing a larger organization with a greater number of employees; managing our supply chain to support fast business growth; controlling expenses and investments in anticipation of expanded operations; establishing or expanding production and R&D facilities; implementing and enhancing administrative structure systems and processes; executing our strategies and business initiatives successfully; fluctuations in the selling prices of our products; and unforeseen challenges in new markets.

If we fail to efficiently manage the expansion of our business or improve our operational efficiency, our costs and expenses may increase faster than we planned and we may not respond timely to competitive challenges or otherwise successfully execute our business strategies. Our product portfolio may continue to change in the future, affecting our revenue mix and profit margin. Our growth requires significant financial resources and places significant demands on our management. If we fail to effectively manage the growth of our business and operations, our reputation, overall prospects and results of operations could be negatively impacted.

**We engaged third-party service providers and business partners, which exposes us to a number of risks, including reduced control over delivery timing and increased costs of operations, which could result in a loss of revenue or reduced profitability.**

We work with a broad range of third-party service providers and business partners, including equipment suppliers, equipment maintenance service providers and other logistic service providers and utility service providers and, for a small portion of our business, third-party distributors. These third parties are subject to risks similar to ours relating to business interruption, systems and employee failures, and cybersecurity and data protection, and are also subject to their own legal, regulatory and market risks.

We purchase substantially all of our equipment from external suppliers based on our technical specifications, and we cannot guarantee that such suppliers will perform their contractual duties as we expect. In particular, only a few companies can produce certain equipment that are necessary to achieve a desirable level of production yields such as weaving machines, and their production capacity is limited. Supply shortage due to any reason can hinder our capability to expand our production capacity.

Our third-party service providers and business partners may not fulfill their respective commitments and responsibilities in a timely manner and in accordance with the terms agreed upon or applicable laws. Any natural or man-made disasters or other unanticipated catastrophic events, including but not limited to adverse weather, fires, technical or mechanical difficulties, storms, explosions, earthquakes, strikes, acts of terrorism and wars could impair the operations of our third-party service providers and business partners and/or disrupt our transportation channels, and impede our ability to manufacture and deliver our products to customers in a timely manner. If the third-party service providers and business partners do not perform satisfactorily, substantially reduce the amount and scope of services provided to us, substantially increase the prices of their services or terminate their business relationship with us, we may need to replace the third-party service providers and business partners or take other remedial actions which could increase our costs of operations. As we do not have direct control over the third-party service providers and business partners, if they become involved in the unauthorized provision of services not complying with our requirements or that of our customers, our reputation in the industry will be affected. Our reputation in the industry will also be adversely affected if the third-party service providers and business partners have any wrongdoing or misconduct or do not comply with applicable laws and regulations.

**Our customers may require our products to undergo a qualification process. If we are unsuccessful or delayed in obtaining the qualifications for our products, our business and results of operations may be impaired.**

Prior to selecting and purchasing our products, particularly new products, our customers may require that our products undergo extensive qualification processes including testing for reliability. However, obtaining the requisite qualifications for an electronic fabric does not ensure any sales of the product. After our products are qualified and selected, it may take a period of time before our customers place order to us. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, to ensure our products meet the customer requirements and are ready for future sales. If we are unsuccessful or delayed in obtaining the qualification for our products, we may lose the sales opportunities, which may impede our growth, harm our business and materially and adversely affect our results of operations.

**Our success depends on our ability to attract and retain management team and key employees. Our failure to do so could harm our ability to grow our business and execute our business strategies.**

Our business depends on the continuing efforts of our management team to oversee and execute our business plans and identify and pursue new opportunities and product innovations. Any loss of service of our management can significantly delay or prevent us from achieving our strategic business objectives, and adversely affect our business, financial condition and operating results. From time to time, there may be changes in our management team, resulting from the hiring or departure of executives, which could also disrupt our business. Hiring suitable replacements and integrating them into our existing teams also require a significant amount of time, training and resources, and may impact our existing corporate culture.

Additionally, our future success also depends on our ability to attract, recruit and train qualified employees and retain existing key personnel. Companies with R&D capabilities in the electronic fabric industry, like us, are intellectually intensive enterprises. Excellent and high-end R&D talents are the key to our competitive advantage. We rely on our R&D team to develop our core technologies and products. We also need our experienced sales and marketing personnel to maintain relationships with our customers and end customers of our products. Competition for personnel in our industry is intense, and the availability of suitable and qualified candidates is limited. We compete to attract and retain qualified R&D personnel with our competitors. In order to compete for talents, we may need to offer higher compensation, better trainings and more attractive career opportunities, employees share incentives schemes and other benefits to our employees, which may be costly and time-consuming. If we lose the services of any key senior management member or employee, we may not be able to locate suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely impact our business and prospects. The loss of the services of one or more of our key employees, especially our key technical personnel with the appropriate qualifications and experience, or our inability to attract and retain qualified technical personnel, could harm our business, financial condition and results of operations.

**Our products may contain defects and we may be subject to product recalls or product liability claims, which could negatively impact our reputation with customers and result in legal liabilities.**

Our products may contain defects when first introduced to customers or when new generations are released. Delivery of products with production defects or reliability, quality or compatibility problems could significantly delay or hinder market acceptance of our products, result in a costly recall, damage our reputation, and adversely affect our ability to retain existing customers and attract new customers. Defects could cause problems with the functionality of our products, resulting in interruptions, delays or cessation of sales of these products to our customers. We may also be required to make significant expenditures of capital and resources to resolve such problems. We cannot assure you that problems will not be found in our new products both before and after commencement of our commercial production, despite the testing by us, our suppliers or our customers. Any such problems could result in delays in development, production and roll-out of new products; additional development costs; loss of, or delays in, market acceptance; diversion of technical and other resources from our other development efforts; claims for damages or product liability claims by our customers or others against us; and loss of credibility with our current and prospective customers. If any of our products contain defects, or have reliability, quality or compatibility problems not capable of being resolved, our reputation may be damaged, which could make it more difficult for us to offer our products to downstream customers. Any such event could have a material adverse effect on our business, financial condition and results of operations.

**Any disruption to the operation of our production facilities could adversely affect our business and results of operations.**

We conduct the core production processes in our facilities in Shanghai and Huangshi, Hubei. The operation of our facilities may be disrupted by physical damage from fires, floods, earthquakes, typhoons, power outages, mechanical breakdowns, telecommunications failures, loss of licenses, certifications and permits, changes in governmental planning for the underlying land, and regulatory development, many of which are beyond our control. As our production process requires substantial amounts of electricity and natural gas, any power outage, disruption or shortage in power or natural gas supply could cause a complete or partial shutdown of our production lines, result in significant production delays, which could have a materially adverse impact on our production. Further, our furnace is generally subject to maintenance every six to ten years which may take several months and if we do not have sufficient stock of electronic yarn, it may interrupt our production and business operations. In addition, our production operations inherently involve risky and hazardous activities, including use of chemical products, which subject us to risks including chemical leakages, equipment failures, industrial accidents, fires and explosions. These risks can result in personal injuries and fatalities, damage to or destruction of properties or production facilities, and other environmental damages. This could result in business interruption and legal liability, and materially and adversely affect our financial condition and results of operations.

**Our international sales subject us to additional risks that could adversely affect our business, financial condition and results of operations.**

In 2023, 2024 and 2025, our revenue from overseas sales amounted to RMB68.9 million, RMB83.9 million and RMB158.4 million, representing 10.4%, 10.0% and 13.5% of our total revenue, respectively. See "Financial Information — Description of Major Components of Our Results of Operations — Revenue — Revenue by Geographic Markets" for more information relating to our overseas sales. As we expand our business overseas, we may be subject to the following risks:

- challenges in providing products and managing sales channels and distribution networks effectively;
- revenue fluctuation from period to period in the future due to unfavorable market conditions, intensified competition, unattractive products, downward pressure on our selling price and any other inherent risks associated with our international sales;
- difficulties in dealing with regulatory regimes, regulatory bodies and government policies with which we may be unfamiliar, in order to obtain permits, licenses and approvals necessary to import, market and sell products in or to various jurisdictions;
- potentially reduced protection for our intellectual property rights and potential breach of third-party intellectual rights;
- differences in potential adverse tax implications and foreign exchange losses;
- inability to effectively enforce contractual or legal rights; and
- changes in laws, regulations and policies as well as political, economic and market instability or civil unrest in the relevant jurisdictions.

If we are unable to effectively avoid or mitigate these risks, our ability to expand in international markets will be impaired. In addition, our international business may not be able to achieve or sustain profitability, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

**The global economic conditions, political instability, and changes in diplomatic and trade relationships could negatively affect our operating results and cause fluctuations in demand for our products.**

Our operating results are directly affected by the general global economic conditions of the industries in which we or our major customers operate. In addition, the recent tensions have led to the introduction of higher tariffs on various goods traded in multilateral trade, including high-technology goods, semiconductors and electronics. Since February 2025, the U.S. proposed to impose multiple rounds of tariffs on a wide range of goods imported from multiple countries, including China, and China responded with retaliatory tariffs. Since February 2025, both countries raised reciprocal tariffs on each other's imported goods to 125%. On February 20, 2026, the U.S. Supreme Court held that the International Emergency Economic Power Act does not authorize the President to impose tariffs, including the reciprocal and fentanyl-related tariffs. Effective from February 24, 2026, the U.S. customs authority will cease to collect these tariffs. Meanwhile, President Trump issued a proclamation to impose a temporary import surcharge of 10% on all imports to the U.S. effective from February 24, 2026 for a period of 150 days, and later announced this tariff rate would be 15% (the rate of the actual import surcharge may vary, subject to the modification of the relevant rules to effectuate the collection of such surcharge). Although the two countries' trade negotiations are continuing, there is substantial uncertainty regarding any final tariff rates. It remains uncertain whether increased tariffs and trade tensions will create further disruptions and uncertainties to the international trade and lead to a downturn in the global economy. It is possible that additional trade policy measures including new tariffs, import/export restrictions, or technology controls may be implemented. Any such developments could create additional challenges for a business involving cross-border trade like ours. There is a possibility that the trade restrictions could expand if an agreement to resolve the issues cannot be reached. There is no assurance as to how the trade tensions might develop or whether there will be any changes to the scope and extent of goods that are or will be subject to such export controls, sanctions, tariffs, or new trade policies. We cannot predict the implications of the ongoing trade tensions and the resulting impact on our industry and the global economy. These conditions affect our business by reducing prices that our customers may be able or willing to pay for our products or by reducing the demand for our products, which could in turn negatively impact our sales and materially and adversely affect our business, cash flows, results of operations and financial condition.

In addition, political instability, such as government upheaval, civil unrest, or changes in leadership, can create an unpredictable environment that may disrupt our supply chain, operations, and customer base. Any shifts in diplomatic relationships between countries can lead to changes in trade policies, tariffs, and sanctions, which could adversely affect our ability to import or export goods.

**We are subject to the risks associated with sanctions and export controls laws and regulations, international trade policies, and developing domestic and foreign laws and regulations, and our business, financial condition and results of operations could be adversely affected.**

Our operations may be negatively affected by trade policies, sanctions and export controls regulations administered by the relevant government authorities, including, but not limited to, increased duties, taxes and other costs. Margins on sales of our products in certain countries and on sales of products that include components obtained from certain foreign suppliers could be materially and adversely affected by international trade regulations, including custom duties, tariffs and anti-dumping penalties. In addition to trade policy measures, the United States and certain other governments have imposed sanctions and export controls measures that directly or indirectly affect China-based technology companies. These types of laws and regulations may be subject to frequent changes, and their implementation, interpretation and enforcement involve substantial uncertainties, which may be heightened by potential national security concerns or other factors that are out of our control. Similar or more expansive restrictions may be imposed by different jurisdictions in the future. We will need to maintain heightened internal control and risk management policies to ensure sound compliance with such restrictions, which requires significant resources and efforts. Furthermore, such potential restrictions may materially and adversely affect our and our technology partners' abilities to acquire technologies, systems, devices or components that may be critical to our products and our business operations. Any of these developments could affect us, our customers and/or suppliers generally, any of which could adversely affect our business and financial condition.

In addition to the restrictions introduced by the rules imposed by the United States Bureau of Industry and Security ("**BIS**"), BIS maintains lists of persons that are subject to enhanced export control restrictions. Such list, known as the Entity List, includes a list of foreign persons, including business, research institutions, government and private organizations, individuals and other types of legal persons, on which certain trade restrictions and licensing requirements for certain technologies and goods are imposed. The United States in recent years has placed an increasing number of entities, including a number of entities in China, on the Entity List and other restricted or prohibited parties lists. Given the discretionary, sudden and unpredictable nature of these determinations, it is difficult to predict developments in this area and we have no ability to influence such determinations. For example, on September 29, 2025, the BIS issued an immediately effective interim final rule that extended Entity List and Military End-User List restrictions to entities that are 50% or more owned, directly or indirectly, by shareholders on those lists, though this rule would reportedly be suspended for one year following the China-U.S. trade negotiations on October 30, 2025.

As the Entity List and other sanctions and export controls laws and regulations continue to expand and evolve, future sanctions and export controls may materially affect or target some of our significant customers or suppliers, raw materials or key components or technologies necessary for our operations, or some of our customers and suppliers may be listed on the Entity List in the future, in which event our business may be affected if we fail to promptly secure alternative customers or sources of supply on terms acceptable to us. These export controls could adversely affect us and/or our supply chain, business partners, or customers, and our business, financial condition, and results of operations may be significantly affected by the continued international trade and political tensions.

If new sanctions and export controls measures were to include a complete or more restrictive ban on products sales to certain entities, it could impact not only our ability to continue supplying our products to affected customers, but could also negatively affect our customers' demand for our products, and could even lead to changes in supply chains of our products, to the extent they involve the use of items subject to the United States Export Administration Regulations (the "**EAR**") or other applicable regulations. As our products become more technologically advanced, there is also a greater likelihood of sanctions and export controls regulations restricting our ability to obtain the components or technologies necessary to produce them or otherwise to export or transfer our products. During the Track Record Period, we sold our products or provided services to two entities that have been designated by the BIS to the Entity List ("**EL Entities**"). In each year during the Track Record Period, revenue generated from the EL Entities accounted for less than 0.01% of our total revenue during the respective year. As advised by our international sanctions legal advisor, our transactions with the EL Entities did not involve any items, technologies or materials that are subject to the EAR. Therefore, our transactions with the EL Entities did not represent a violation of the U.S. export control restrictions applicable to the EL Entities during the Track Record Period. While we believe that the products we provide to customers are not subject to the EAR, if the U.S. government imposes more stringent restrictions, or if relevant government authorities interpret the current regulations differently from our view, we may face penalties or our sales may be negatively affected. Even if our products are not directly targeted by these types of sanctions and export controls, we may nonetheless face higher costs and expenses in our supply chain due to new sanctions and export controls measures as our customers and business partners may be negatively affected by sanctions and export controls measures directed at China.

Moreover, in response to Russia's conflict with Ukraine, the United States, the European Union, and various other jurisdictions have imposed far-reaching sanctions and export controls restrictions on Russia and many Russian entities and individuals such that sales to or other business in Russia or with such restricted entities or individuals are subject to heightened regulatory risks. These measures, as well as other economic and trade sanctions measures maintained by the United States, the European Union, and other jurisdictions, may prohibit or restrict our ability to, directly or indirectly, conduct activities or dealings in or with certain targeted countries and territories or involving certain targeted persons, or otherwise affect our business. New measures imposed by the United States, the European Union, or others could restrict certain of our operations and adversely affect our business, results of operations, and financial condition. Our failure to successfully comply with applicable sanctions or export controls rules may expose us to negative legal and business consequences, including civil or criminal penalties, the loss of access to controlled technologies, and government investigations, all of which could materially and adversely affect our business, results of operations, and financial condition.

**We are exposed to risks associated with Outbound Investment Rule that prohibit or require notification by U.S. persons for certain investments.**

On October 28, 2024, the U.S. Department of the Treasury ("**Treasury**") issued a final rule, codified in the United States Code of Federal Regulations at 31 C.F.R. part 850, to implement the Executive Order 14105 of August 9, 2023 (the "**Outbound Investment Rule**"), which became effective on January 2, 2025. The Outbound Investment Rule imposes investment prohibition and notification requirements on U.S. persons for a wide range of investments in entities associated with China (including Hong Kong and Macau) that are engaged in activities relating to three sectors: (i) semiconductors and microelectronics, (ii) quantum information technologies, and (iii) artificial intelligence systems, collectively defined as "Covered Foreign Persons." U.S. persons subject to the Outbound Investment Rule are prohibited from making, or required to report, certain investments in Covered Foreign Persons, which are defined as "Covered Transactions," and include certain acquisitions of an equity interest, certain debt financing, joint ventures, and certain investments as a limited partner in a non-U.S. person pooled investment fund. The Outbound Investment Rule contains exceptions for certain investments, including those in publicly traded securities, except when the U.S. person investor secures rights that go beyond standard minority shareholder protections.

As advised by our international sanctions legal advisor, we are not a Covered Foreign Person within the meaning of the Outbound Investment Rule. However, there is no assurance that the Treasury will take the same view as ours. If we were to be deemed a "Covered Foreign Person," and if U.S. persons engaged in a "Covered Transaction" (each as defined under the Outbound Investment Rule) that involves the acquisition of our equity interests, such U.S. persons may need to make a notification pursuant to the Outbound Investment Rule, or may be prohibited to invest entirely. In addition, even though U.S. persons' acquisitions of certain publicly traded securities (such as our H Shares) will be exempted from the scope of Covered Transactions under the Outbound Investment Rule, the Outbound Investment Rule could still limit our ability to raise capital or contingent equity capital from U.S. investors after this offering given that relevant laws, regulations, and policies continue to evolve. For example, on February 21, 2025, the U.S. President issued a memorandum entitled the "America First Investment Policy" (the "**America First Memo**"), indicating that Executive Order 14105 is under review to examine whether the Executive Order "includes sufficient controls to address national security threats." On December 18, 2025, the Comprehensive Outbound Investment National Security Act of 2025 (the "**COINS Act**"), as part of the National Defense Authorization Act for Fiscal Year 2026, became law. The COINS Act will supersede the Outbound Investment Rule following the adoption of implementing regulations, the content of which is uncertain. The application and implication of the Outbound Investment Rule, the America First Memo and any related policies, laws and regulations are complex, which may be changed and updated from time to time. Future changes in the Outbound Investment Rule, the America First Memo, and any related policies, laws, and regulations or their interpretations, or any similar or more expansive restrictions imposed by the U.S. or other jurisdictions, may result in additional costs on our business and/or limit our ability to raise capital or contingent equity capital from U.S. investors and other sources that may otherwise be beneficial to us, which could adversely affect our performance, financial condition, and prospects, in which case the value of our H Shares may also be materially and adversely affected.

**Any failure by us or our business partners to comply with applicable anti-money laundering, anti-terrorism, anti-bribery and similar laws could lead to significant penalties and damages to our reputations, adversely affecting our operating performance, financial condition and results of operations.**

Any failure by us or our business partners who work with us to comply with applicable anti-money laundering ("**AML**"), anti-terrorism, anti-bribery laws and regulations could lead to significant penalties and damage to our reputation. We and our business partners who work with us are often required to comply with certain AML requirements set out by regulators in the jurisdictions where we and our business partners operate. We are also subject to various AML, anti-terrorism, anti-bribery, export controls and economic and trade sanctions laws and regulations that prohibit, among other things, any involvement in transferring the proceeds of criminal activities and the import and export of controlled products and technologies. To comply effectively with such laws and regulations, we and our business partners must establish sound internal control policies and procedures with respect to AML, anti-terrorism, anti- bribery, export controls, economic and trade sanctions, which can require significant resources and expenditures.

The policies and procedures we and our business partners have adopted may not be effectively implemented in protecting our products from being exploited for money laundering, terrorist financing, bribery and corruption, terrorism, economic and trade sanctions and other illegal purposes. If we fail to comply with AML, anti-terrorism, anti-bribery, export controls and economic and trade sanction laws and regulations, we could be subject to fines, enforcement actions, regulatory sanctions, additional compliance requirements, increased regulatory scrutiny of our business, or other penalties levied by government authorities, and damages to our reputation, all of which may adversely affect our business, results of operations and financial condition. Similarly, if any of our subsidiaries, employees, business partners or other persons engage in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal control policies, we could become subject to one or more enforcement actions or otherwise be found to be in violation of such laws, which may result in penalties, fines or sanctions and in turn adversely affect our reputation, business, financial condition and results of operations.

**We have recorded net operating cash outflow in the past, and our liquidity, financial condition and prospects may be adversely affected if we continue to record net operating cash outflow in the future.**

For the year ended December 31, 2023, we had net cash outflow used in operating activities of RMB97.7 million. See "Financial Information — Liquidity and Capital Resources — Cash Flow" for more details. There is no assurance that we will not experience net cash outflows from our operating activities in the future. In the event that we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity, financial condition and prospects may be adversely affected. If we resort to other financing activities to obtain additional cash, we will incur additional financing costs, and we cannot assure you that we will be able to obtain the financing on terms acceptable to us, or at all.

**We may incur additional impairment loss on our assets.**

During the Track Record Period, we conducted regular review and impairment assessment on carrying amounts of our property, plant and equipment including precious metal, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Our expected credit losses on trade and other receivables amounted to RMB0.2 million, RMB0.7 million and RMB1.4 million in 2023, 2024 and 2025, respectively. In particular, according to our accounting policies, if the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. Such test involves business judgement of our management, which is subjective in nature and subject to inherent limitations and risks. See Note 2(h) to the Accountants' Report in Appendix I to this document. Any significant impairment of financial assets could have a material adverse effect on our results of operations and financial position.

**If we fail to manage our inventory effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.**

In order to operate our business effectively and meet the procurement demands and expectations of our end customers, we need to maintain a certain level of inventory to meet the needs of production and ensure timely delivery of our products. Our inventory mainly consists of raw materials, work in progress, and finished products. When market demand increases, we correspondingly raise our inventory levels to ensure supply stability. However, such an approach is inherently uncertain, and the demand for our products could change significantly between the order date and the projected delivery date. We cannot assure you that we are able to always maintain optimal inventory levels in the future.

If we fail to accurately assess the demand, we may experience inventory backlog and obsolescence or inventory shortage risk. Inventory levels in excess of demand, or substantial decrease in the expected market price of our products, may result in inventory write-downs or write-offs and we may sell the excess inventory at discounted prices, which would have an adverse effect on our profitability. If we underestimate the demand for our products, we may not be able to produce a sufficient number of products to meet such unanticipated demand, which could result in delays in the delivery of our products and negatively affect our reputation.

In 2023, we recorded reversal of write-down of inventories of RMB2.9 million. In 2024, we recorded reversal of write-down of inventories of RMB4.2 million. In 2025, we recorded inventory write-down of RMB4.0 million. As of December 31, 2023, 2024 and 2025, our inventory turnover days were 119 days, 106 days and 89 days, respectively. Demand forecasts are inherently uncertain despite supply chain management mechanisms due to a number of factors, such as launch of new products, pricing, changes in customer procurement decisions and evolving preferences of customers of electronic fabric products, each of which may affect the accuracy of any forecast. We may record provision losses from time to time in accordance with our inventory policies. Any of the above may materially and adversely affect our business, results of operations and financial condition. As we plan to continue to expand our production capacities, we may continue to face challenges in effectively managing our inventory.

**We are exposed to credit risk of our customers. Failure to collect our trade and bills receivables in a timely manner may affect our financial condition and results of operations.**

As of December 31, 2023, 2024 and 2025, our trade and other receivables amounted to RMB412.4 million, RMB446.3 million and RMB647.0 million, respectively. Our trade receivables turnover days were 119 days, 119 days and 117 days in 2023, 2024 and 2025, respectively.

If the creditworthiness of our customers deteriorate, or if our customers delay payments beyond their respective credit period or if a significant number of our customers fail to settle our accounts receivables in full for any reason, we may incur bad debt expenses or even recognize an allowance for doubtful accounts and our results of operations and financial position could be materially and adversely affected. There is no assurance that we will be able to fully recover our accounts receivables from the customers or that they will settle our accounts receivables in a timely manner. In the event that settlements from customers are not made in a timely manner, or at all, our financial position and results of operations may be materially and adversely affected.

**Our financial results are affected by fluctuations in foreign currency exchange rates.**

Our revenue from overseas sales represented 10.4%, 10.0% and 13.5% of our total revenues in 2023, 2024 and 2025, respectively. Our overseas sales transactions are generally denominated and settled in U.S. dollars. The reporting currency of our consolidated financial statements is in RMB. Gains and losses on the conversion to RMB of such revenue and of other associated monetary assets and liabilities may contribute to fluctuations in the value of our assets and our results of operations. We also have costs and expenses that are denominated in foreign currencies. Decreases in the value of RMB could result in increases in such costs that could have a significant negative impact on our results of operations. As we continue to expand our international sales, we will become increasingly exposed to the effects of fluctuations in currency exchange rates. In 2023, 2024 and 2025, we recorded net foreign exchange losses of RMB3.8 million in 2023 and RMB5.6 million in 2025, compared with a net foreign exchange gain of RMB1.6 million in 2024.

In addition, as the **[REDACTED]** from the **[REDACTED]** will be in Hong Kong dollars, fluctuations in the exchange rate between the Renminbi and the Hong Kong dollar will affect the relative purchasing power in Renminbi in terms of the **[REDACTED]** from the **[REDACTED]**. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollar or U.S. dollar would affect our financial results in Hong Kong dollar or U.S. dollar without giving effect to any underlying change in our business or results of operations.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. With the development of the foreign exchange market and progress towards the market-based interest rate and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against other currencies in the future. It is difficult to predict how market forces or relevant government policies may impact the exchange rate between the Renminbi and other currencies in the future.

**Fluctuations in changes in fair value of financial assets measured at fair value through other comprehensive income may adversely affect our financial results.**

We recorded financial assets at FVOCI of RMB53.2 million, RMB32.3 million and nil as of December 31, 2023, 2024 and 2025, respectively. Our financial assets measured at FVOCI consisted primarily of the certificates of deposit. The balance of certificates of deposits mainly comprised certificates of deposits with terms over three months and related accrued interest. See "Financial Information — Discussion of Key Items of our Consolidated Statements of Financial Position — Financial Assets Measured at FVOCI" for more details. The fair value change of financial assets measured at FVOCI may significantly affect our financial position and results of operations. The determination of the fair value of such financial assets requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of such financial assets. These factors include, but are not limited to, general economic conditions, changes in market interest rates and the stability of capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could materially and adversely affect our results of operations and financial condition.

**We may be unable to fund our operations, make scheduled debt repayment and make adequate capital investments.**

To develop new products and technologies, support future growth and achieve operating efficiencies in order to generate operating cashflows, we must make significant capital investments in procurements of equipment and R&D. From time to time, we may experience volatility in our cash flows and operating results. We have utilized external sources of financing when needed. We may need additional capital in the future to fund our continued operations, in addition to the use of our cash inflows from our operating activities. However, we may be unable to raise additional funds, whether through equity or debt financing, when needed on favorable terms or at all. If we do raise additional capital through public or private equity offerings, the ownership interest of our existing Shareholders, including investors in this offering, will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our Shareholders' rights. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. In addition, our credit profile may be affected by our liquidity, financial results, economic risk or other factors, which may increase the cost of future borrowings and make it difficult for us to obtain financing on terms acceptable to us or at all. There can be no assurance that we will be able to generate sufficient cash flows, access capital or credit markets, or find other sources of financing to fund our operations, make debt payments, pay dividend, and make adequate capital investments to remain competitive in terms of technology development and cost efficiency. Any failure to raise capital as and when needed could have a negative impact on our financial condition and on our ability to pursue our business plans and strategies.

**Failure to protect our intellectual property or our proprietary technology or claims of intellectual property infringement against us, could substantially harm our business.**

Our success and ability to compete depend in part upon our ability to protect our intellectual property. We rely on a combination of intellectual property rights, including patents, copyrights, trademarks, trade secrets and know-how, in China and other jurisdictions. See "Business — Intellectual Property" for details of our intellectual property. The steps we take to protect our intellectual property rights may not be adequate, particularly in foreign jurisdictions. The laws of some foreign countries do not protect our intellectual property rights as fully as the laws of other countries, and our ability to protect our intellectual property rights will differ per jurisdiction. Any patents we hold may not adequately protect our intellectual property rights or our products against competitors, and third parties may challenge the scope, validity or enforceability of our issued patents. Changes in either the patent laws or their interpretation in the relevant jurisdictions may diminish our ability to protect our inventions, obtain, maintain, defend and enforce our intellectual property rights and, more generally, could affect the value of our intellectual property or narrow the scope of our patent rights. In addition, other parties may independently develop similar or competing technologies designed around any patents or patent applications that we hold. There is no assurance that we are able to successfully apply and be granted new intellectual property rights in a timely and cost-effective manner in the future, as such applications are expensive and time consuming. Any failure to timely seek patent protection on products or technologies generally precludes us from seeking future patent protection on these products or technologies.

In addition to patents, we also rely on contractual protections with our customers, suppliers, distributors, employees and consultants, and we implement security measures designed to protect our trade secrets and know-how. However, we cannot assure you that these contractual protections and security measures will not be breached, that we will have adequate remedies for any such breach or that our customers, suppliers, distributors, employees or consultants will not assert rights to intellectual property or damages arising out of such contracts. The risk that other parties may breach confidentiality agreements or that our trade secrets become known or independently discovered by competitors could harm us by enabling our competitors, who may have greater experience and financial resources, to copy or use our trade secrets and other proprietary information in the advancement of their products, methods or technologies. The unauthorized use or disclosure of our trade secrets would impair our competitive position, thereby weakening demand for our products and harming our ability to maintain or increase our customer base.

We may initiate claims against third parties to protect our intellectual property rights if we are unable to resolve matters satisfactorily through negotiation. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management. It could also result in the impairment or loss of portions of our intellectual property, as an adverse decision could limit our ability to assert our intellectual property rights, limit the value of our technology or otherwise negatively impact our business, financial condition and results of operations. Additionally, any enforcement of our patents or other intellectual property may provoke third parties to assert counterclaims against us. Our failure to secure, protect and enforce our intellectual property rights could materially harm our business.

Furthermore, third parties may assert against us from time to time, and our customers' patent and other intellectual property rights to technologies that are important to our business. Claims that our products, processes or technology infringe third-party intellectual property rights, regardless of their merit or resolution, could be costly to defend or settle and could divert the efforts and attention of our management and technical personnel. We may also be obligated to indemnify our customers or business partners in connection with any such litigation, which could result in increased costs. Infringement claims also could harm our relationships with our customers or distributors and might deter future customers from doing business with us. If any such proceedings result in an adverse outcome, we could be required to: cease the production, use or sale of the infringing products, processes or technology; pay substantial damages for infringement; expend significant resources to develop non-infringing products, processes or technology, which may not be successful; license technology from the third-party claiming infringement, which license may not be available on commercially reasonable terms, or at all; cross-license our technology to a competitor to resolve an infringement claim, which could weaken our ability to compete with that competitor; or pay substantial damages to our customers to discontinue their use of or to replace infringing technology sold to them with non-infringing technology, if available. Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations.

**We may fail to successfully make desirable acquisitions or investments, and we may not be able to achieve the benefits we expect from past and future acquisitions or investments.**

We may, from time to time, seek to acquire or invest in businesses, assets, products, or technologies that we believe could complement or expand our business, enhance our technical capabilities or otherwise offer growth opportunities. However, such acquisitions or investments could create risks for us, including:

- difficulties to identify appropriate targets that align with our long-term strategic goals;
- difficulties in integrating acquired assets, personnel, operations and technologies or realizing synergies expected in connection with an acquisition, particularly with acquisitions of companies with large and widespread operations, complex products or that operate in markets in which we historically have had limited experience;
- unanticipated costs or liabilities, including possible litigation, associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management's attention from other business concerns;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate an acquisition.

A significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill, which must be assessed for impairment at least annually. If such acquisitions do not yield expected returns, we may be required to recognize impairment loss for goodwill based on impairment assessment process, which could harm our results of operations. International acquisitions would involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries or regions.

Any future investment or acquisition could be material to our business, financial condition and results of operations. We may be unable to identify appropriate targets or complete acquisitions at all or on commercially reasonable terms, which could limit our future growth. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of additional debt, which could adversely affect our operating results and result in a decline in our stock price and further restrict our ability to pursue business opportunities, including potential acquisitions. In addition, if an acquired business fails to meet our expectations, our operating results may suffer.

**In order to comply with environmental laws and regulations, we may need to modify our activities or incur substantial costs, and if we fail to comply with environmental regulations, we could be subject to substantial fines or be required to have our suppliers alter their processes.**

To identify, manage, and mitigate ESG risks, we may incur additional costs and expenses which could impact our financial performance. Given the nature of our business, we do not produce any material generation of emissions and wastes or heavy pollutions. Nonetheless, we monitor environmental and climate-related risks that may impact our business, strategy and financial performance and evaluate the magnitude of the resulting impact over the short-, medium- and long-term horizons. We monitor a wide range of indicators such as power consumption, emission of greenhouse gas, water consumption and waste generation to manage our environmental and climate-related risks arising from our operations and are committed to providing adequate support to our employees to nurture a friendly and inspirational corporate culture. This commitment may entail incurring substantial additional costs and would potentially impact our profitability. See "Business — ESG Matters."

In addition, the increasing ESG-related regulatory requirements, including various ESG disclosure mandates in the jurisdiction 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 customers choosing products from other companies, which may materially and adversely affect our results of operations and financial condition.

**If we are unable to protect or promote our brand and reputation, our business could be materially and adversely affected. Negative publicity or rumors about us, our products, our management, Directors, employees, Shareholders, customers, business partners or their affiliates or our industry in general may adversely affect our reputation and business.**

We need to maintain and enhance our brand identity while increasing market awareness of the reputation of our business and products. The successful promotion of our brand will depend on our efforts to achieve widespread acceptance of our products, attract and retain customers, maintain our current market leadership, and successfully differentiate our offerings from those of competitors. These efforts require substantial expenditures, and we anticipate expenses will increase as our market becomes more competitive. Furthermore, these investments in brand promotion and thought leadership may not yield increased revenue. To the extent they do, the resulting revenue still may not be enough to offset the increased expenses we incur.

In addition, adverse publicity, with or without merits, relating to events or activities attributed to us, our management, Directors, employees, Shareholders, business partners or their affiliates, industry, or productions or services similar to ours, may tarnish our reputation and reduce the value of our brand. For instance, unfounded and adversarial statements or opinions could be misleading and harm our business and reputation. Given the delicate and complex nature of the industry that we operate in, we are vulnerable to such statements or opinions. If we fail to respond to such statements or opinions in a proper manner, our business reputation, financial condition and results of operations may be adversely affected. Moreover, our brand value depends on our ability to provide products that meet industry standards in our markets. Damage to our reputation and loss of brand equity may reduce demand for our products, have an adverse effect on our future financial results, or reduce the trading price of our Shares. Damage may also require additional resources to rebuild our reputation and restore the value of the brand. If we are unable to successfully enhance and protect our reputation, our business operations, results of operations, and financial condition could be materially and adversely affected.

**Any failure to obtain requisite approvals, licenses or permits applicable to our business operation may have a material and adverse impact on our business, financial condition and results of operations.**

In accordance with the laws and regulations in the jurisdiction in which we operate, we are required to maintain various approvals, licenses, permits and certifications in order to operate our business. Complying with such laws and regulations may require substantial expense and may impose a significant burden, while any non-compliance may expose us to liability. There is no assurance that we can successfully update or renew the licenses, permits, certificates and approvals required for our business in a timely manner or at all, or that these licenses, permits, certificates and approvals are sufficient to conduct all of our present or future business. There are uncertainties regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. If we fail to complete, obtain or maintain any of the required licenses, permits, certificates and approvals or make the necessary filings, we may be subject to various penalties, such as imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

As of the Latest Practicable Date, we had not obtained property ownership certificates and temporary construction permit for certain temporary buildings in Shanghai and Huangshi, such as warehouses and auxiliary facilities which are not our primary production and operation sites, on land for which we hold the relevant land use rights. As advised by our PRC Legal Advisor, according to the relevant PRC laws and regulations, our rights in respect of the temporary buildings constructed by us and our subsidiary in Huangshi may be adversely affected due to the absence of the relevant ownership certificates. The competent authorities may, in accordance with law, order the demolition of such temporary buildings within a prescribed time limit and impose fines on us. During the Track Record Period and up to the Latest Practicable Date, neither our Company nor our subsidiary in Huangshi had received any administrative actions, fines or penalties from the relevant regulatory authorities in respect of such temporary buildings. With respect to the temporary buildings constructed by our subsidiary in Huangshi, we obtained written confirmation from the competent governmental authority in Huangshi, confirming that such buildings do not constitute material violations of laws and regulations and therefore will not result in administrative penalties or demolition. On this basis, our PRC Legal Advisor is of the view that both the risks of demolition and administrative penalties in Huangshi are low. With respect to the temporary buildings constructed by us in Shanghai, based on the building inspection and fire safety assessment reports issued by qualified inspection and evaluation institutions, which indicate that such buildings are in good condition, our PRC Legal Advisor considers that the likelihood of the competent authorities ordering their immediate demolition is low. Nevertheless, we may be subject to a fine of up to an amount equivalent to the construction cost of such temporary works in Shanghai. According to our assessments, the potential fine is estimated to be less than RMB5 million, representing approximately less than 0.5% of our audited total assets and revenue for the year of 2025. Taking into account (a) the usage of these temporary buildings, (b) the fact that they do not constitute our principal production and operation sites, (c) the estimated amount of potential fines, and (d) the fact that Mr. Wong, Ms Wong and Asia Wealth have provided a written undertaking that, if we are subject to any penalties imposed by the competent authorities in connection with such temporary buildings, they will bear all relevant expenses (including but not limited to fines, demolition costs and relocation costs, etc.) and all losses that are paid or should be paid by us as a result of such matters and they further undertake that they will not seek any recourse or indemnification from the us in respect thereof. Our PRC Legal Advisor is of the view that, even if such temporary buildings of our Company and its subsidiary are ordered to be demolished and/or the relevant acts are penalized, such events would not have a material adverse effect on our production and operations.

**Legal proceedings and claims could have a material adverse effect on our business, results of operations, or financial condition.**

We may be subject to or involved in lawsuits, contract disputes, employment-related controversies, and other legal and administrative proceedings or fines relating to our business operations inside and outside China. Lawsuits and other administrative or legal proceedings that may arise during our operations can involve substantial costs, including the costs associated with investigation, litigation and possible settlement, judgment, penalty or fine. Lawsuits and other legal and administrative proceedings may be costly and time consuming and may require a commitment of management and personnel resources that will be diverted from our normal business operations. There may also be negative publicity associated with litigation that could decrease customer acceptance of our products, regardless of whether the allegations are valid or whether we are ultimately found liable. If any of these happens, our business, financial condition, results of operations or liquidity could be materially and adversely affected. In addition, our Directors, management, Shareholders and employees and their affiliates may from time to time be subject to litigation, regulatory investigations, proceedings and/or negative publicity or otherwise face potential liability and expense in relation to commercial, labor, employment, securities or other matters, which could adversely affect our reputation and results of operations.

We or certain of our Directors or officers may be a target for lawsuits, including putative class action lawsuits brought by Shareholders and lawsuits against our Directors and officers as a result of their position in other public companies. We cannot assure you that we or our Directors or officers will be able to prevail in their defense or reverse any unfavorable judgment on appeal, and we and our Directors or officers may decide to settle lawsuits on unfavorable terms. Any adverse outcome of these cases, including any plaintiffs' appeal of the judgment in these cases, could result in payments of substantial monetary damages or fines, or changes to our business practices, and thus materially and adversely affect our business, financial condition, results of operations, cash flows and reputation. Moreover, even if we or our Directors or officers eventually prevail in these matters, we could incur significant legal fees or suffer significant reputational harm. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial performance.

We are subject to anti-corruption, AML, anti-bribery and other relevant laws and regulations in the jurisdiction where we operate. We may be subject to investigations and proceedings by governmental authorities for alleged infringements of these laws if our compliance processes or internal control systems are not conducted or are not operating properly. These proceedings may result in fines or other liabilities and could have a material adverse effect on our reputation, business, financial condition and results of operations. If any of our subsidiaries, employees or other persons engage in fraudulent, corrupt or other unfair business practices or otherwise violate applicable laws, regulations or internal controls, we could become subject to one or more enforcement actions or otherwise be found to be in violation of such laws, which may result in penalties, fines and sanctions and in turn adversely affect our reputation, business, financial condition and results of operations. Given the uncertainty, complexity and scope of many of these litigation matters, their outcome generally cannot be predicted with a reasonable degree of certainty. Therefore, our provision 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 and adverse effect on our prospects and future growth, including our ability to attract new business partners and customers, expand our relationships with governmental regulators and industry groups and recruit and retain employees and agents.

**We may not have sufficient insurance coverage to cover our business risks.**

We have obtained insurance to cover certain potential risks and liabilities, such as property insurance for our factories, inventories, equipment, and other assets and employee accident insurance. See "Business — Insurance" for more details. However, insurance companies in the PRC and other jurisdiction in which we operate may offer limited business insurance products. As a result, we may not be able to acquire any insurance for all types of risks we face in our operations in the PRC and overseas, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business or operations. This potentially insufficient coverage could expose us to potential claims and losses. Any business disruption, litigation, regulatory action, outbreak of epidemic disease, adverse weather conditions or natural disasters could also expose us to substantial costs and diversion of resources. There can be no assurance that our insurance coverage will be sufficient to cover us for any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensation amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

**Our risk management and internal control systems may not be adequate or effective.**

We seek to improve and update our risk management and internal control systems on a regular basis. See "Business — Risk Management and Internal Control" for more details. However, there is no assurance that they will be effective in safeguarding our risk management and internal control functions and fulfilling their purposes by ensuring, among other things, accurate reporting of our financial results and the prevention of fraud. Since our risk management and internal control systems depend on effective implementation by our employees, and even though we provide relevant internal trainings in this regard, we cannot assure you that our employees are sufficiently or fully trained to implement these systems, or that their implementation will be free from error or mistakes. If we fail to timely update, implement, and modify, or fail to deploy sufficient human resources to maintain our risk management policies and internal control procedures, our business, financial condition, results of operations and prospects could be materially and adversely affected.

**Any interruptions in our IT systems could adversely affect our business.**

We rely on the efficient and uninterrupted operation of complex IT systems and networks to operate our business. Any significant disruption to our systems or networks, including, but not limited to, new system implementations, computer viruses, security breaches, facility issues, natural disasters, terrorism, war, telecommunication failures or energy blackouts, could have a material adverse impact on our operations and financial results. Such disruption could result in a loss of our intellectual property or the release of sensitive competitive information or supplier, customer or employee personal data. Any loss of such information could harm our competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages caused by any such disruptions or security breaches. Additionally, any failure to properly manage the collection, handling, transfer or disposal of personal data of employees and customers may result in regulatory penalties, enforcement actions, remediation obligations, litigation, fines and other sanctions.

We may experience attacks on our data, attempts to breach our security and attempts to introduce malicious software into our IT systems. If attacks are successful, we may be unaware of the incident, its magnitude, or its effects until significant harm is done. Any such attack or disruption could result in additional costs related to rebuilding our internal systems, defending litigation, responding to regulatory actions, or paying damages. Such attacks or disruptions could have a material adverse impact on our business, operations and financial results.

Third-party service providers may have access to certain portions of our and our customers' sensitive data. In the event that these service providers do not properly safeguard the data that they hold, security breaches and loss of data could result. Any such loss of data by our third-party service providers could negatively impact our business, operations and financial results, as well as our relationship with our customers.

**Our operations could be subject to natural disasters, health epidemics, wars, geopolitical tensions, armed conflicts and other business disruptions, which could have a material adverse effect on our business, results of operations and financial condition.**

Our business could be adversely affected by natural disasters or outbreaks of epidemics. These natural disasters, outbreaks of contagious diseases and other adverse public health developments in any market where we operate could severely disrupt our business operations by damaging our technology infrastructure or information technology system or impacting the productivity of our workforce, which may adversely affect our financial condition and results of operations.

Wars, geopolitical tensions and armed conflicts in various regions, including recent military conflicts, and wars around the world, including the war involving Iran, have created uncertainties in the global economic and operating environment. Such developments may lead to fluctuations in energy prices, disruptions in logistics and transportation, volatility in foreign exchange rates and changes in regulatory or trade policies, which could affect global business activities and market conditions. In addition, such uncertainties may affect the stability of global supply chains and the overall business sentiment, which could in turn influence market conditions and cross-border commercial activities.

These uncertainties may, directly or indirectly, affect our business operations. Although we have not experienced any material adverse impact from such events during the Track Record Period, there can be no assurance that our business, financial condition and results of operations will not be adversely affected in the future.

**Failure to fully comply with labor-related laws may expose us to potential liabilities and penalties.**

We face the challenge of complying with a diverse array of labor-related laws and regulations across different countries. We cannot assure you that we have complied or will be able to comply with all labor-related laws and regulations. During the Track Record Period, we did not make adequate contribution to social insurance for a few employees as required by relevant PRC laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not received any notice from local governmental authorities regarding any claim of inadequate contribution, and no relevant administrative action or penalty had been imposed by the relevant governmental authorities. Furthermore, we had not received any employee complaints filed against us nor involved in any labor disputes with our employees with respect to social insurance and housing provident funds up to the Latest Practicable Date. Based on the foregoing, our PRC Legal Advisor is of the view that, the risk that we would be subject to material administrative penalties due to our failure to provide full social insurance within the stipulated period for our employees is remote, provided that we make such payments in full within the required timeframe if we are requested to make such payments. However, we cannot assure you that the relevant government authorities will not require us to pay the outstanding amount and impose late fees or fines on us. If we are otherwise subject to investigations related to violations of labor laws and are imposed severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business may be adversely affected. Despite our compliance efforts, as the interpretation and implementation of labor-related laws and regulations are still evolving, our employment practices may violate labor-related laws and regulations in the jurisdiction where we operate, which may subject us to labor disputes or government investigations. In general, compliance with the different labor-related laws and their respective implementation rules may increase our operating expenses, in particular our personnel expenses. If we are deemed to have violated the relevant labor laws and regulations, we could be subject to fines and penalties or be required to provide additional compensation to our employees. Our business, financial condition, results of operations and reputation may be adversely affected as a result.

## RISKS RELATING TO DOING BUSINESS IN THE MARKETS IN WHICH WE OPERATE

**Changes in economic, political or social conditions or government policies in the markets in which we operate could have a material adverse effect on our business and results of operations.**

We operate our business in Chinese mainland and Hong Kong. Accordingly, our business, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in these markets. Geopolitical, economic and market conditions, including factors such as the liquidity of the global financial markets, the level and volatility of debt and equity prices, interest rates, currency and commodities prices, inflation and the availability and cost of capital and credit have affected and will continue to affect the markets where we operate. In some of these markets, governments continue to play a significant role in regulating industry development by imposing industrial policies. Additionally, as we are headquartered in the PRC and the majority of our assets are in the PRC, our financial condition, results of operations and prospects are subject to economic, political, and legal developments in the PRC. The ongoing trade tensions between the United States and the PRC may have tremendous negative impact on the economies of not merely the two countries concerned, but the global economy as a whole. The uncertainty surrounding the U.S. government's tariff policy has created significant apprehension among global markets, as the potential for disrupted trade flows could have far-reaching economic consequences. It is unclear whether these challenges and uncertainties will be contained or resolved, and what effects they may have on the global political and economic conditions in the long term. Any changes in the global or local economy in the markets in which we operate may materially and adversely affect our business, results of operations and financial condition.

**You should assess the legal protections you are entitled to under the legal system in China.**

The legal system in China is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In particular, the interpretation and enforcement of newly promulgated laws and regulations involve uncertainties and application may be subject to case-by-case analysis. In addition, as in other civil law countries, there is a limited volume of published court decisions in China, which may be cited for reference but are not binding on subsequent cases and have limited precedential value unless the Supreme People's Court otherwise provides. The laws and regulations in China are subject to further revisions or interpretations from time to time. New laws, regulations, guidelines and interpretations that are promulgated in the future may affect the rights and obligations of the parties involved. Therefore, you should assess the legal protections you are entitled to under the legal system in China.

In addition, since the PRC legislative bodies, the judicial authorities and the enforcement bodies have discretion in interpreting and implementing statutory provisions and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings. These uncertainties may affect our judgment on the relevance of legal requirements and our ability to enforce our contractual rights or tort claims. In addition, 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 may be subject to regulatory requirements relating to laws and regulations in connection with overseas listings issued by PRC government authorities.**

On February 17, 2023, the CSRC issued the Trial Measures (which came into effect on March 31, 2023) and five supporting guidelines (which came into effect on February 17, 2023) (the "**Overseas Listing Regulations**"). The Overseas Listing Regulations are applicable to overseas securities offering and listing conducted by issuers who are (i) companies incorporated in the PRC

("**PRC domestic companies**") and (ii) companies incorporated overseas with substantial operations in the PRC. The Overseas Listing Regulations lay out the arrangements for regulatory filings for both direct and indirect overseas offerings, and clarify the determination criteria for indirect overseas offerings in overseas markets. The Overseas Listing Regulations stipulate that such issuer shall fulfill the filing procedures within three working days after it makes an application for offering and listing in an overseas stock market. According to the Overseas Listing Regulations, we, as a PRC domestic company seeking to issue and list securities in overseas markets, are required to fulfill the filing procedure with the CSRC within three working days after submitting the application documents to the overseas supervisory authorities to report relevant information. See "Regulatory Overview — Other Laws and Regulations — PRC Regulations on Overseas Listing" for more details.

The Overseas Listing Regulations may subject us to additional compliance requirements in the future, and we cannot assure you that we will be able to get clearance of our filing procedures under the Overseas Listing Regulations on a timely basis, or at all. Any failure on our part to fully comply with the regulatory requirements may significantly limit or completely hinder our ability to continue to sell our securities to investors, cause significant disruption to our business operations, and severely damage our reputation, which could affect our financial condition and results of operations and cause our securities to decline in value or become worthless.

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

We cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements or restrictions on us or our financing activities. If it is determined in the future that approval from or filing with the CSRC or other regulatory authorities or other procedures are required, we may fail to obtain such approval, perform such filing procedures or meet such other requirements in a timely manner or at all. We may face sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or other government authorization, or perform filing procedures, for the **[REDACTED]** or our future financing activities, and these regulatory authorities may impose fines and penalties on us, limit our operating activities in the PRC, limit our ability to pay dividends outside the PRC, delay or restrict the repatriation of **[REDACTED]** from the **[REDACTED]** into the PRC or take other actions to restrict our financing activities, which could have a material adverse effect on our business.

**As a company listed on the Shanghai Stock Exchange, we, our Directors, senior management, employees and Shareholders are subject to securities regulations and exchange listing rules in the PRC.**

As a company listed on the Shanghai Stock Exchange, we, our Directors, senior management, employees and Shareholders are subject to securities regulations issued by the CSRC and the Shanghai Stock Exchange Listing Rules. While we are committed to full compliance with all applicable regulatory requirements, new regulations and rules, and changes in the interpretation or enforcement of existing regulations and rules, may be adopted from time to time. To maintain compliance, we may need to devote additional resources and incur compliance-related costs. In addition, the CSRC and the Shanghai Stock Exchange may have periodic or ad hoc inspections, examinations and inquiries with respect to our compliance with relevant regulatory requirements. During the Track Record Period, we and certain of our senior management team received three verbal warnings from the Shanghai Stock Exchange due to non-compliance with relevant information disclosure requirements of the Shanghai Stock Exchange and one letter of concern from Shanghai Regulatory Bureau of the CSRC. While we have made necessary rectifications as agreed with the relevant regulatory authority (where applicable) and the incidents did not have any material adverse impact on us, we may receive in the future regulatory inquiries, warning letter and examinations from the Shanghai Stock Exchange and the CSRC, which may affect our share price and also may affect our reputation, business and financial condition.

**Failure to comply with rapidly evolving governmental regulations and other legal obligations concerning data protection and cybersecurity may materially and adversely affect our business.**

In the course of conducting our business, we primarily collect the following types of customer data: contact information, delivery addresses and purchase records. We collect their payment information as part of purchase records to complete the transactions when customers make purchases. In addition, we also collect the basic information of our distributors and their designated contacts to facilitate management. Adhering to the principle of data minimization, we collect only the essential personal information from our customers, distributors, suppliers and other third-party service providers solely to facilitate the marketing, sales, and delivery of our products, as well as to provide after-sales services. See "Business — Data Privacy and Security" for more details. We are subject to local and overseas laws relating to cybersecurity and data privacy. Several jurisdictions have enacted stringent laws governing data protection, and many others are actively considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. For instance, we are subject to various regulatory requirements relating to cybersecurity and data privacy, including the PRC Data Security Law (《中華人民共和國數據安全法》), the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》), the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》) and Regulations on Network Data Security Management《網絡數據安全管理條例》(together known as the "**Data Security Regulations**"). If our data processing activities are subject to these laws and regulations, we are required to ensure that our data processing activities are carried out in a lawful, legitimate, specific and clear manner. Failure to comply with these regulations could expose us to severe penalties, legal liability, and reputational damage. Any failure by us to comply with local or overseas cybersecurity or data protection laws and regulations could result in proceedings against us by governmental entities or others.

As of the Latest Practicable Date, we had not been notified of being classified as a critical information infrastructure operator, we had not received any inquiry, notice, warning from any PRC government authorities, and had not been subject to any investigation, sanctions or penalties made by any PRC government authorities regarding national security risks caused by our business operations or the **[REDACTED]**. Our PRC Legal Advisor is of the view that we are not required to proactively apply for cybersecurity review for the purpose of the **[REDACTED]**. As the definitions for terms such as "affect or may affect national security" are broad, and the enforcement of these rules depends on the interpretation applied at the time of their implementation, we cannot guarantee that the Data Security Regulations will not be interpreted in a way that will adversely affect us.

In addition, regulatory requirements on cybersecurity and data privacy are constantly evolving, with new regulations potentially being introduced or existing ones repealed, which means the scope of our responsibilities in this area need to be dynamically determined in accordance with the laws and regulations effective at the relevant time. We may also be subject to additional or new laws and regulations regarding the protection of personal information and important data or privacy related matters in connection with our methods for data collection, analysis, storage and use. If we are unable to comply with the applicable laws and regulations or effectively address data privacy and protection concerns, such actual or alleged failure could damage our reputation, discourage customers from purchasing our products and subject us to significant legal liabilities.

**Payment of dividends or gains from the sale or other disposition of our H Shares is subject to taxation under PRC law.**

Non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares ("**Non-PRC Resident Individual Holders**") are subject to the PRC individual income tax on dividends received from us. 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) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (國稅函] 2011]348號) dated June 28, 2011 and issued by the SAT of the PRC, the tax rate applicable to dividends paid to Non-PRC Resident Individual Holders of H Shares 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. However, pursuant to the Circular on Certain Policy Questions Concerning Individual Income Tax of the MOF and the SAT (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》) (Cai Shui Zi [1994] No. 020) issued by the MOF and the SAT on May 13, 1994, dividend income of individual foreigners from PRC enterprises with foreign investment are exempted from individual income tax for the time being. In addition, 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 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 of Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from the Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, from January 1, 1997, the income of individuals from the transfer of the shares of listed enterprises continues to be exempted from individual income tax. Based on our knowledge, as of the Latest Practicable Date, the PRC tax authorities had not in practice sought to collect individual income tax on such gains. If such tax is collected in the future, the value of such individual holders' investments in H Shares may be materially and adversely affected.

Under the Law of the PRC on Enterprise Income Tax ("**EIT Law**") and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax ("**EIT**") 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 EIT 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稅有關問題的通知》(國稅函[2008]897號)) promulgated by the SAT on November 6, 2008, we intend to withhold tax at 10.0% 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 will be in accordance with the then-effective laws and regulations and may change, and new taxes may be imposed, which in either case may adversely affect the value of your **[REDACTED]** in our H Shares.

**Expiration of, or changes to, certain government grants and preferential tax treatments which we are entitled to could adversely affect our financial condition and results of operations.**

During the Track Record Period, our Company and one of our subsidiaries were entitled to preferential income tax rates pursuant to the relevant tax regulations. For example, during the Track Record Period, certain entities within our Group enjoyed preferential EIT tax rate of 15% as they were "high and new technology enterprises" (commonly known as HNTEs). For details, see Note 7 to the Accountants' Report in Appendix I to this document. Preferential tax treatments and other incentives granted to us by PRC governmental authorities are subject to review and renewal and may be adjusted or revoked in the future. We cannot guarantee that the preferential tax treatments and other incentives to which our PRC subsidiaries are currently entitled would be kept valid or successfully renewed. There can be no assurance that the local tax authorities will not, in the future, change their position and discontinue any of our current tax treatments. The discontinuation of any of our current tax treatments could materially increase our tax obligations and adversely impact our net income.

In addition, we recorded government grants of RMB16.1 million, RMB14.3 million and RMB14.4 million in 2023, 2024 and 2025, respectively, which mainly consist of subsidies for technology innovation, environmental protection and other policy-driven incentives. We cannot assure you that we will continue to receive and benefit from such grants in the future. If we are not qualified for receiving the government grants, our financial condition and results of operations may be materially and adversely affected.

**Any decrease or discontinuation of tax rebate for our exported products may have a negative effect on our profitability.**

According to the Notice of the MOF and the SAT on the Value-Added Tax and Consumption Tax Policy for Export Business (《財政部、國家稅務總局關於出口業務增值稅和消費稅政策的公告》) issued by MOF and the SAT, effective from January 1, 2026, unless otherwise provided by law, export goods and services are subject to the exemption and refund of VAT policies. Subject to the relevant PRC laws, we are entitled to a rebate of VAT from the PRC tax authority in connection with our export sales for our products. The tax rebate comprised a refund of VAT incurred on the raw materials we used for production of our products in the PRC, which are subsequently exported to overseas countries. We cannot assure you that the PRC governmental policies on tax rebate will not change or that the current policies we enjoy will not be cancelled. If there is any reduction, suspension, discontinuation or cancellation of tax rebate which may adversely affect the recoverability of our VAT recoverable, our business, financial condition and profitability would be adversely affected.

**It may be difficult to effect service of process upon us or our Directors or executive officers who reside in the PRC or to enforce against them in the PRC any judgments obtained from non-Chinese courts.**

We are a company incorporated under the laws of the PRC and a majority of our assets and subsidiaries are located in the PRC. The majority of our Directors and senior management reside within the PRC. The assets of these Directors and senior management also may be located within the PRC. As a result, it may not be possible to affect service of process upon most of our Directors and senior management outside the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in the United States, the United Kingdom, Japan or most other western countries. However, judgments rendered by Hong Kong courts may be recognized and enforced in the PRC if the requirements set forth by the Arrangements for Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Cases between Courts of the Mainland and Hong Kong Special Administrative Region (《最高人民法院關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) are met. Therefore, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions other than Hong Kong in relation to any matter not subject to binding arbitration provisions may be difficult or impossible.

Although we will be subject to the Listing Rules and the Takeover Codes upon the **[REDACTED]** of our H Shares on the Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules.

**We are subject to the currency exchange control system.**

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 control 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.

## RISKS RELATING TO THE [REDACTED]

**We will be concurrently subject to [REDACTED] and regulatory requirements of China and Hong Kong.**

As we are listed on the Shanghai Stock Exchange and will be **[REDACTED]** on the Main Board in Hong Kong, we will be required to comply with the listing rules (where applicable) and other regulatory regimes of both jurisdictions, unless an exemption is available or a waiver has been obtained. Accordingly, we may incur additional costs and resources in continuously complying with all sets of listing rules in the two jurisdictions.

**There has been no prior public market for our H Shares, and an active trading market for our H Shares may not develop or be sustained.**

Prior to the completion of the **[REDACTED]**, there has been no **[REDACTED]** for our H Shares. There can be no guarantee that an active **[REDACTED]** for our H Shares will develop or be sustained after the completion of the **[REDACTED]**. The **[REDACTED]** is the result of negotiations between our Company and the **[REDACTED]** (for itself and on behalf of the **[REDACTED]**), which may not be indicative of the price at which our H Shares will be **[REDACTED]** following completion of the **[REDACTED]**. The **[REDACTED]** of our H Shares may drop below the **[REDACTED]** at any time after completion of the **[REDACTED]**.

**Our A Shares are listed on the Shanghai Stock Exchange, and the characteristics of the A Share and H Share markets may differ.**

Our A Shares are listed and traded on the Shanghai Stock Exchange. Following the **[REDACTED]**, our A Shares will continue to be traded on the Shanghai Stock Exchange and our H Shares will be **[REDACTED]** on the Stock Exchange. Under current laws and regulations of Chinese mainland, without the approval from the relevant regulatory authorities, our H Shares and A Shares are neither interchangeable nor fungible, and there is no **[REDACTED]** or settlement between the H Share and A Share markets. With different **[REDACTED]** characteristics, the H Share and A Share markets have divergent **[REDACTED]** volumes, liquidity and **[REDACTED]** bases, as well as different levels of retail and institutional **[REDACTED]** participation. As a result, the **[REDACTED]** performance of our H Shares and A Shares may not be comparable. Nonetheless, fluctuations in the price of our A Shares may adversely affect the **[REDACTED]** of our H Shares, and vice versa. Due to the different characteristics of the H Share and A Share markets, the historical prices of our A Shares may not be indicative of the **[REDACTED]** of our H Shares. You should therefore not place undue reliance on the trading history of our A Shares when evaluating the **[REDACTED]** decision in our H Shares.

**The [REDACTED] and [REDACTED] volume of our H Shares may be volatile, which could result in substantial losses to you.**

The **[REDACTED]** and **[REDACTED]** volume of our H Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in Chinese mainland that have listed their securities in Hong Kong may affect the volatility in the **[REDACTED]** of and **[REDACTED]** volumes for our H Shares. A number of Chinese mainland-based companies have listed their securities, and some are in the process of preparing for listing their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards Chinese mainland-based companies listed in Hong Kong and consequently may impact the **[REDACTED]** of our H Shares. These factors may significantly affect the market price and volatility of our H Shares, regardless of our actual operating performance.

**You will incur immediate and significant dilution and may experience further dilution if we issue additional H Shares in the future.**

If the **[REDACTED]** of our H Shares is higher than the net tangible book value per H Share of our H Shares immediately prior to the **[REDACTED]**, purchasers of our H Shares in the **[REDACTED]** will experience an immediate dilution in **[REDACTED]** net tangible book value. If we issue additional H Shares in the future, purchasers of our H Shares in the **[REDACTED]** may experience further dilution in their shareholding percentage.

**Our historical dividends may not be indicative of our future dividend policy, and there can be no assurance that we will declare and distribute any dividends in the future.**

Our ability to declare future dividends will depend on the availability of dividends, if any, received from us and our other PRC operating subsidiaries. Under PRC law and the constitutional documents of our PRC operating subsidiaries, dividends may be paid only out of distributable profits, which refer to after-tax profits as determined under PRC GAAP less any recovery of accumulated losses and required allocations to statutory capital reserve funds. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years. The calculation of our distributable profits under PRC GAAP differs in certain respects from the calculation under IFRS Accounting Standards. Our Company and our PRC operating subsidiaries may not be able to pay a dividend in a given year if our Company or our PRC operating subsidiaries do not have distributable profits as determined under PRC GAAP even if they have profits as determined under IFRS Accounting Standards. See "Financial Information — Dividends" and Note 26(b) to the Accountants' Report in Appendix I to this document for more details.

There can be no assurance that future dividends will be declared or paid. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors, after taking into account our results of operations, financial condition, cash requirements and availability and other factors as they may deem relevant, and subject to the approval at a Shareholders' meeting. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable.

**We have significant discretion as to how we will use the [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.**

Our management may spend the **[REDACTED]** from the **[REDACTED]** in ways you may not agree with or that do not yield a favorable return. See "Future Plans and Use of **[REDACTED]**" for details. However, our management will have discretion as to the actual application of our **[REDACTED]**. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific use we will make of the **[REDACTED]** from the **[REDACTED]**.

**You should not place any reliance on any information released by us on the Shanghai Stock Exchange.**

As our A Shares are listed on the Shanghai Stock Exchange, we have been subject to periodic reporting and other information disclosure requirements in Chinese mainland. As a result, from time to time, we publicly release information relating to us on the Shanghai Stock Exchange or other media outlets designated by the CSRC. However, the information announced by us in connection with our A-Share Listing is based on regulatory requirements of the securities authorities, industry standards and market practices in Chinese mainland, which are different from those applicable to the **[REDACTED]**. The presentation of financial and operational information for the Track Record Period disclosed on the Shanghai Stock Exchange or other media outlets may not be directly comparable to the financial and operational information contained in this document. As a result, prospective **[REDACTED]** in our H Shares should be reminded that, in making their **[REDACTED]** decisions as to whether to purchase our H Shares, they should rely only on the financial, operating and other information included in this document. By applying to purchase our H Shares in the **[REDACTED]**, you will be deemed to have agreed that you will not rely on any information other than that contained in this document and any formal announcements made by us in Hong Kong with respect to the **[REDACTED]**.

**Future sales or perceived sales of substantial amounts of our H Shares in the [REDACTED] could have a material adverse effect on the [REDACTED] of our H Shares and our ability to raise additional capital in the future.**

The **[REDACTED]** of our H Shares could decline as a result of future sales of a substantial number of our H Shares or other securities relating to our H Shares in the **[REDACTED]**, or the issuance of new Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a specific time and on terms favorable to us. In addition, our Shareholders may experience dilution in their holdings if we issue more securities in the future. New Shares or shares-linked securities issued by us may also confer rights and privileges that take priority over those conferred by the H Shares.

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

Our Controlling Shareholders Group has significant influence over our operations and business strategies, and may have the ability to require our Group to effect corporate actions according to their own desires by virtue of their shareholding in our Group. The interests of our Controlling Shareholders Group may not always coincide with the best interests of other Shareholders. If the interests of any member of our Controlling Shareholders Group conflict with the interests of other Shareholders, or if any member of our Controlling Shareholders Group chooses to cause our business to pursue strategic objectives that conflict with the interests of other Shareholders, our Group or those other Shareholders' interests may be adversely affected as a result.

In addition, there is no guarantee that the Controlling Shareholders Group will not dispose of their Shares following the expiration of their respective lock-up periods after the **[REDACTED]**. We cannot predict the effect, if any, of any future sales of the Shares by any member of our Controlling Shareholders Group, or that the availability of the Shares offered by any member of our Controlling Shareholders Group for purchase may have on the market price of the Shares. Sales of a substantial number of Shares by any member of our Controlling Shareholders Group or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

**Certain facts, forecasts and statistics contained in this document are derived from various government official sources and may not be accurate, reliable, complete or up to date.**

Certain facts, forecasts and statistics in this document relating to the PRC and global economy and the industries in which we operate are obtained from official government publications that we believe are reliable. We believe that the sources of the said information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. However, there can be no guarantee of the quality or reliability of these sources. Neither we, the Sole Sponsor nor our or their respective affiliates or advisors have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions obtained from these sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this document relating to the PRC, the global economy and the industry in which we operate may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. As such, no representation as to the accuracy of such facts, forecasts and statistics obtained from various sources is made. Moreover, these facts, forecasts and statistics involve risk and uncertainties and are subject to change based on various factors and should not be unduly relied upon. Furthermore, there can be no assurance that they are stated or compiled on the same basis, or with the same degree of accuracy. Therefore, you should not unduly rely upon the industry facts, forecasts and statistics contained in this document.

**If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our H Shares, the market price and [REDACTED] volume of our H Shares may decline.**

The **[REDACTED]** market for our H Shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who cover us downgrade our H Shares or publishes inaccurate or unfavorable research about our business, the market price for our H Shares would likely decline. If one or more of these analysts cease coverage of our Company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or **[REDACTED]** volume for our H Shares to decline.

**You should read the entire document carefully and should not rely on any information contained in press articles or other media relating to us, our H Shares or the [REDACTED].**

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the **[REDACTED]**. Prior to the publication of this document, there has been press and media coverage regarding us, our business, our industry and the **[REDACTED]**. There may be additional media coverage regarding us, our business, our industry and the **[REDACTED]** subsequent to the date of this document but prior to the completion of the **[REDACTED]**. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. None of us or any other person involved in the **[REDACTED]** has authorized the disclosure of any such information in the press or media and none of us accepts any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. Our Company, the Sole Sponsor, **[REDACTED]**, any of our and their respective directors, supervisors, officers, representatives, employees, advisors or any other persons or parties involved in the **[REDACTED]** make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, our Company, the Sole Sponsor, **[REDACTED]**, any of our and their respective directors, officers, representatives, employees, advisors or any other persons or parties involved in the **[REDACTED]** disclaim responsibility for it, and you should not rely on such information.

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

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," and other similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved, and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the 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. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.