In addition to other information in this document, you should carefully consider the following risk factors before making any investment decisions in relation to the **[REDACTED]**. *Any of the following risks may adversely affect our business, financial condition, results of operations and prospects, or otherwise cause a decrease in the trading price of the* **[REDACTED]** *and cause you to lose all or part of the value of your investment. These risk factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as at the Latest Practicable Date, will not be updated thereafter, and is subject to the cautionary statements in the section headed "Forward-looking Statements" in this document.*

Our operational results are subject to several risk factors that can be categorised into the following areas: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the **[REDACTED]**.

RISKS RELATING TO OUR BUSINESS

The demand for paper products and our papermaking felts may be affected by paperless and environmental-friendly initiatives

Paperless and environmental-friendly initiatives include, among others, limiting paper use, recycling and reusing. According to the Frost & Sullivan Report, the market demand for papermaking felt is associated with the demand for paper. Paperless and environmental-friendly initiatives may potentially decrease the demand for paper products, which in turn affect the demand for our papermaking felts. We are not able to assure you that the demand for paper and paper products, as well as papermaking felts will sustain if there is an increase in promotion of paperless and environmental-friendly initiatives. There is also no assurance that paper products will not be replaced by products made from new technology and new materials that are environmental-friendly.

We may not be able to sustain our growth by taking advantage of the expected growth in sales value and sales volume of papermaking felts in the PRC due to the high utilisation rates of our production facilities and our development and manufacturing capabilities may not be able to keep pace with our customers' demands

Our future growth and success will depend significantly on our ability to adapt quickly to developments in the papermaking felts manufacturing industry, in particular, our ability to adapt to changes in the demand for our products from our customers, which may require us to upgrade our production capabilities.

The overall average utilisation rates of our production facilities were approximately 95.9%, 95.3%, 94.6% and 83.6% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Our future growth may be adversely affected if we are not able to expand our production capacity in time to meet the growing demand for our products. As such, there is no assurance that we will be able to achieve or maintain similar level of growth in our revenue and profit and total comprehensive income in the future.

We are exposed to credit risk of our customers and we may experience delays or defaults in our trade and other receivables

Our trade and other receivables as at 31 December 2018, 2019 and 2020 and 30 June 2021 were approximately RMB107.5 million, RMB128.9 million, RMB141.1 million and RMB123.8 million, respectively. Our loss allowance provision for the three years ended 31 December 2020 and the six months ended 30 June 2021 were approximately RMB1.4 million, RMB0.8 million, RMB1.5 million and RMB0.3 million, respectively.

Although some of our customers are required to settle payment before delivery of our products, the credit periods we granted to our customers were generally around 30 to 180 days. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our trade receivables turnover days were approximately 174.9 days, 198.1 days, 209.7 days and 257.8 days, respectively. In the event that a significant number of our customers fail to settle the trade receivables in full for any reason, our cashflow level may be adversely affected, and we may have to make provision for impairment, write-off the receivables and/or incur legal costs to recover the outstanding sum from our customers, which may in turn have a material and adverse impact on our business, financial conditions and results of operations.

We are subject to risks in relation to our intellectual property rights as we may not be able to adapt quickly to developments in the papermaking felts manufacturing industry and we may not be able to prevent others from misappropriating our intellectual properties

Our Directors believe that our intellectual property rights, including trademarks, patents and software copyrights, are crucial to our business as we operate in a sector where technological innovation and technical skills are vital for us to remain competitive. We provide comprehensive papermaking felts services to our customers, from conducting on-site visits and advising our customers on the types and specifications of papermaking felts, to sourcing suitable raw materials for our production, conducting quality control, delivering papermaking felts to customers and providing after-sale services. Our Directors believe that our research and development team is crucial as it ensures quality and standard in our papermaking felts. As a result of our research and development capabilities, we apply our proprietary technical know-how in the innovation and development of our products, that allow us to understand our customers' needs and precise requirements of our papermaking felts based on our analysis on the data on our customers' papermaking machines collected during the provision of our services. Please refer to the section headed "Business" in this document for more information.

Our future growth and success will depend significantly on our ability to adapt quickly to developments in the papermaking felts manufacturing industry. In particular, our success will depend on our ability to adapt our products to changes in product demands from our customers, which may require us to expand our research and development capabilities. Our failure to adapt to these changes could result in a loss of competitive advantage, for example, in the form of know-how of current production techniques, which may materially and adversely affect our business, financial conditions and results of operations.

Moreover, we may not be able to effectively protect our intellectual properties and prevent any unauthorised use. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

We did not enter into long-term supply contracts with our suppliers and our production cost and schedule may be adversely affected if we fail to secure supply

During the Track Record Period, our five largest suppliers accounted for approximately 81.0%, 83.5%, 80.8% and 83.3% of our total purchase of raw materials, and purchases from our largest supplier accounted for approximately 43.6%, 50.7%, 50.0% and 48.9% of our total purchase of raw materials for the same periods, respectively.

We do not have long-term purchase commitments with our suppliers. There is no assurance that our suppliers will be able to supply the required raw materials to us in a timely manner or that they will not significantly increase the prices at the time of our purchase. There is also no assurance that our suppliers would be able to deliver to us the raw materials up to our required standard. In either case, our production schedule and business could be materially and adversely affected. In addition, we may not be able to secure alternative supplies of raw materials of similar quality from other suppliers at prices and terms acceptable to us. In such event, our business, financial condition and operating results may be materially and adversely affected.

We are exposed to disruptions to the delivery of our products and raw materials

We believe our success partly stems from the timely and accurate delivery of raw materials from our suppliers and our products to our customers. We deliver our finished goods to our customers through third party logistics service providers. For details, please refer to the paragraph headed "Business — Logistics" in this document. There is no guarantee that our products and raw materials will be delivered smoothly and without delay. Disruptions to deliveries may be caused for reasons beyond our control, including but not limited to natural disasters, unfavourable weather conditions and labour strikes. If there is any prolonged disruption to the deliveries of raw materials from our suppliers, our production and deliveries to customers may be adversely affected. If our products are not delivered to our customers on time, or are damaged during the course of delivery, our reputation could be adversely affected.

We have limited control over the practice and manner of sales by our trading company customers and we may not have sufficient measures to minimise the risk of cannibalisation between our trading company customers and our Group and/or between our trading company customers and our direct customers and/or among our trading company customers

Our customers mainly include: (i) PRC paper and paper products manufacturers and trading companies, from which we derived around 95% to 96% of our revenue; and (ii) overseas paper and paper products manufacturers and trading companies, from which we derived around 4% to 5% of our revenue. Our trading company customers will further sell our products to third parties paper and paper products manufacturers overseas. During the Track Record Period, our revenue generated from the PRC and overseas trading companies accounted for approximately 12.9%, 15.7%, 13.1% and 14.8% for the three years ended 31 December 2020 and the six months ended 30 June 2021 of our total revenue, respectively. Due to the number of our trading company customers and size of the market, it is difficult to monitor all aspects of our trading company customers' practices thoroughly and substantively, in particular the risks of channel-stuffing and cannibalisation. Moreover, we do not impose any geographical exclusivity to our customers, including those who are trading companies. As such, we may not have sufficient measures to minimise the risk of cannibalisation between our trading company customers and our Group and/or between our trading company customers and our direct customers and/or among our trading company customers, which may adversely affect our direct sales business and the performance of our trading company customers.

We may from time to time become a party to litigation and other legal proceedings that may adversely affect us

As a result of our ordinary business operations, we may become a party to various litigation, legal proceedings, claims, disputes or arbitration proceedings from time to time. Any ongoing litigation, legal proceedings, claims, disputes or arbitration proceedings may distract our Group's attention and consume the time of our staff and other resources. Sichuan Huanlong, being the defendant, was involved in a claim in relation to the dispute on the construction of factory building two as set out in the paragraph headed "Business — Legal proceedings and compliance — Legal proceedings" in this document. Based on the advice of our PRC Legal Advisers, our Directors estimated that the total potential claims payable to the claimant, being the previous constructor, is approximately RMB1.9 million, which included certain site preparation and construction works of approximately RMB0.6 million performed by the claimant (in which the amount have been recognised as part of the additions to the property, plant and equipment for the year ended 31 December 2020), and provision of legal claims of approximately RMB1.3 million recognised in profit or loss for the year ended 31 December 2020. The court made the first-instance judgment on 16 July 2021, according to which Sichuan Huanlong was liable to pay the claimant (i) construction fees in sum of approximately RMB0.7 million together with interest; and (ii) damages in sum of approximately RMB1.3 million. As such, a further provision of legal claims of approximately RMB0.3 million recognised in profit or loss for the six months ended 30 June 2021 and approximately RMB2.2 million in aggregate was recorded as provision for legal claim in the statement of financial position of the Group as at 30 June 2021. No party had lodged an appeal to the court and Sichuan Huanlong settled the amount of approximately RMB2.1 million to the claimant according to the aforesaid judgement on 27 August 2021.

In addition, even if we ultimately succeed in such litigation, legal proceedings, claims, disputes or arbitration proceedings, there may be negative publicity attached to such litigation, legal proceedings, claims, disputes or arbitration proceedings, which could materially and adversely affect our reputation and brand. In addition, if any verdict is awarded against us, we could be required to pay significant monetary damages, assume significant liabilities or suspend or terminate the manufacturing of certain products. As a result, this may have a material adverse effect on our business, operations and prospects.

Our borrowing levels, net current liabilities and uncertainty in obtaining external financing could limit funds available to us for business purposes and increases in interest rates could materially affect our business, financial conditions and results of operations

We have relied on cash generated from operations and bank borrowings to carry on our business, and we expect to continue to do so in the future. As at 31 December 2018, 2019 and 2020 and 30 June 2021, we had bank borrowings of approximately RMB122.5 million, RMB117.0

million, RMB115.0 million and RMB115.0 million, respectively, representing approximately 47.3%, 40.1%, 34.1% and 30.7% of our total assets for the same period, respectively. We may not be able to obtain bank loans or renew existing credit facilities in the future on favourable terms.

As at 31 December 2018 and 30 June 2021, our net current liabilities amounted to approximately RMB31.1 million and RMB2.3 million. Our indebtedness and net current liabilities could materially and adversely affect our liquidity. Our net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations as and when they become due will mainly depend on our ability to maintain adequate cash generated from operating activities and sufficient external financing. We cannot assure you that we will always be able to raise necessary funding to finance our current liabilities and other debt obligations and we may continue to have net current liabilities in the future. Our ability to arrange financing and the cost of such financing are dependent on the global and the PRC economic conditions, capital and debt market conditions, lending policies of the PRC government and banks, and other factors. In the event we are unable to obtain adequate financing to meet our working capital requirements, we may be forced to delay, adjust, reduce or abandon our planned strategies. Our business, prospects and financial condition may be materially and adversely affected if our cash flow and capital resources are insufficient to finance our debt obligations.

Furthermore, any fluctuation in interest rates will affect the amount of debt payments. If adequate funding is not available to us on favourable terms, we may not be able to fund our existing operations and develop or expand our business and therefore our business, financial conditions and results of operations may be materially and adversely affected.

Disruptions, damages or destructions to our production facilities, machinery and equipment may materially and adversely affect our business, financial condition and results of operations

The success of our business depends on, among other things, the continuing operations of our Chengdu Production Site and Shanghai Production Site at which our production facilities are located. The operations of our production facilities may be affected by various factors, such as: (i) fire, flood or power failure at our production facilities or the buildings adjacent to our production sites; (ii) breakdown of machinery and equipment at our production facilities; or (iii) scheduled maintenance of our machinery and equipment. The occurrence of any unanticipated or prolonged disruptions, damage or destruction to our production facilities and machinery and equipment may affect our ability to produce and deliver products to our customers in a timely manner. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Rising operating costs, including the costs of raw materials and direct labour costs, may increase our costs and reduce our profitability

According to the Frost & Sullivan Report, the papermaking felts manufacturing industry relies heavily on professionals and talents for product development and production. We strive to invest in recruiting and retaining our experienced professionals. Our direct labour costs amounted to approximately RMB11.8 million, RMB11.8 million, RMB12.9 million and RMB7.1 million, accounting for approximately 14.5%, 15.1%, 15.5% and 18.9% of our cost of sales for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. According to the Frost & Sullivan Report, the average monthly salary of employed persons in the manufacturing industry witnessed a steady growth from approximately RMB3,892.8 in 2016 to approximately RMB5,232.6 in 2020, representing a CAGR of approximately 7.7%. A constant growth of direct labour costs within the market will lead to an increase in our costs of sales, which may materially and adversely affect our business, financial conditions and results of operations.

Nylon is the major raw material of monofilaments and fibre for production of papermaking felts. The import price of imported nylon monofilaments and fibre increased at a CAGR of approximately 3.0% during 2016 to 2020. On the other hand, the price of domestic nylon monofilament and fibre recorded a fluctuation between 2016 to 2020, and registered a CAGR of -3.2% during 2016 to 2020. Going forward, the price of imported and domestic nylon monofilaments and fibre is expected to increase from 2021 to 2025, which could therefore impose burden on our profitability and financial performance.

Our gross profit margins were approximately 48.9%, 53.4%, 54.5% and 51.1% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. As our profitability is dependent upon among other factors, the cost of raw materials and direct labour costs, there is no assurance that we will be able to maintain our gross profit margins. Any substantial increase in our costs of operation, including the cost of raw materials and direct labour costs may lead to lower gross profit margins and may materially and adversely affect our financial conditions and prospect.

If we are unable to continue to receive government subsidies from local governmental authorities or quality for preferential income tax rates, our margins and profitability may be materially and adversely affected

During the Track Record Period, certain of our research projects were recognised by various local governmental authorities pursuant to which we received government subsidies of approximately RMB5.9 million, RMB2.9 million, RMB3.5 million and RMB133,000 for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Moreover, pursuant to the relevant laws and regulations in the PRC, Sichuan Huanlong, our subsidiary in the

PRC, was qualified under the development strategy of the PRC's western region and was able to enjoy a preferential income tax rate of 15% for the three years ended 31 December 2020 and the six months ended 30 June 2021. Sichuan Huanlong has renewed its preferential tax status for 2021. In 2014, Shanghai Jinxiong, our subsidiary in the PRC, was accredited as a high and new technology enterprise in 2014 and further renewed in 2017 and 2020, with a validity period of three years since the last renewal date, therefore entitled to a preferential tax rate of 15% during the Track Record Period and up to the year ending 31 December 2022. In addition, both Sichuan Huanlong and Shanghai Jinxiong are eligible for a tax deduction of up to 175%, 175%, 175% and 175% of approved research and development costs incurred for each of the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Please refer to the paragraph headed "Financial Information — Discussion on major items from the consolidated statements of profit or loss and other comprehensive income — Income tax expense — The PRC" in this document for more information.

However, the government subsidies are subject to policy changes by their respective local governmental authorities in terms of the types of research projects recognised and preferential income tax rates are also subject to policy changes. As such, any policy changes will result in the decrease in government subsidies received by us and/or increase in income tax expense, which in turn may have a material and adverse impact on our financial conditions and results of operations.

We may be subject to liability under, and may take expenditures to comply with, environmental laws and regulations

We are subject to laws, rules and regulations concerning the discharge of pollutants and the environmental impact of the construction of our production sites. For details, please refer to the paragraphs headed "Regulatory Overview — VI. PRC laws and regulations in relation to environmental protection" and "Business — Environmental, social and governance" in this document.

As confirmed by our PRC Legal Advisers, any violation of these laws and regulations may result in fines, revocation of licence for business operation, interruption of our production process with obligations to conduct rectification and other unfavourable situations. In addition, the PRC government may take steps towards the adoption of more stringent environmental regulations. However, there is no assurance that our cost to comply with the environmental laws and regulations will not substantially increase in the future, which may hinder our business, profitability and financial performance.

We may incur impairment losses for intangible assets, which may adversely affect our results of operations

Our intangible assets comprised trademarks, computer software and capitalised development costs, which amounted to RMB39.9 million, RMB44.2 million, RMB51.1 million and RMB55.7 million as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively.

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. Intangible assets with indefinite useful lives (i.e. trademarks) are carried at cost less any subsequent accumulated impairment losses.

Intangible assets that are not yet available for use and intangible assets with indefinite useful lives are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Intangible assets in the Company's statement of financial position are subject to impairment testing. Others are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable. The process of assessment requires judgments in relation to such events or changes in circumstances.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset. If any of our intangible assets is determined to be impaired in the future, we would be required to write down the carrying amount or recognise an impairment loss for these intangible assets in our financial statements for the relevant period, and this may have adverse effect on our business, financial condition and results of operations.

We are exposed to risk of inventory obsolescence

Our inventories consist of raw materials, work-in-progress and finished goods we manufactured which are ready to be sold. We believe that maintaining appropriate levels of inventories helps us deliver our products in a timely manner without straining our liquidity. As at 31 December 2018, 2019 and 2020 and 30 June 2021, we had inventories of approximately RMB12.3 million, RMB11.3 million, RMB10.0 million and RMB11.5 million, respectively. Our inventory turnover days were approximately 65.9 days, 55.2 days, 46.9 days and 52.1 days for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. We may be exposed to higher risks of inventory obsolescence in the event that any of our raw materials, work-in-progress and/or finished goods are damaged during storage or otherwise. Any sudden and material changes in our customers' product requirements may result in decline in inventory values, significant write-downs or write-offs and overstocking of raw materials and/or work-in-progress. In such event, our business, financial conditions and results of operations may be materially and adversely affected.

We may not be able to renew our current leases for our leased properties and the rental expenses may increase in the future which could adversely affect our financial condition and results of operations

Our production plants, staff dormitory and staff cafeteria in our Shanghai Production Site are presently located on leased premises. The leases are renewable every one to two years. Our ability to renew such leases upon their expiry is crucial to our operation and profitability. At the end of each lease term, we may not be able to negotiate an extension or renewal of the lease and may therefore be forced to move to a less favourable location or the rent we pay may increase significantly. In such event, we may incur relocation costs and the relocation may materially and adversely affect our business, financial conditions and results of operations.

In the event that rental expenses for properties that are suitable for our operation increase in the future, and we fail to shift such increase to our customers or offset such increase by reducing other operating costs, our financial condition and results of operations may be adversely affected.

Our future capital expenditure on property, plant and equipment may result in an increase in our depreciation expenses and may affect our profitability

Our depreciation expenses for our property, plant and equipment amounted to approximately RMB7.5 million, RMB8.2 million, RMB9.1 million and RMB4.6 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. As part of our business strategies to expand our production capacity, we plan to purchase certain new production machinery under three phases of our production capacity expansion plan which are estimated to cost approximately RMB156.4 million. For further details, please refer to the paragraph headed "Business — Our business strategies" and the section headed "Future Plans and **[REDACTED]**" in this document. As soon as the machinery is put into operation and assuming the expected useful life of the machinery is 12 years (which is consistent with the existing accounting policy) and the depreciation rate is approximately 8.3%, they will result in additional annual depreciation charges of approximately RMB13.0 million. The increase in depreciation will adversely affect our financial performance and operating results.

Our existing insurance coverage may not be sufficient to cover the risks related to our operations and we may incur significant losses resulting from product liability claims or business interruptions

We do not carry business interruption insurance arising from accidents at our facilities, and there are certain types of losses, such as those arising from war, acts of terrorism, typhoons, flooding or other natural disasters for which we are not able to obtain insurance at a reasonable cost or at all. Any business disruption or natural disaster claim could result in our incurrence of substantial costs and diversion of resources, which may materially and adversely affect our business, financial conditions and results of operations. In addition, to the extent our insurance policies do cover particular risks, we cannot assure you that all claims made by us under our insurance policies will be honoured fully or on time by our insurance providers. Should an accident, natural disaster, terrorist act or other event result in an uninsured loss or a loss in excess of insured limits, we could suffer financial loss and damage to our reputation and could lose all or a portion of future revenue anticipated to be derived from the relevant product or facilities. Any material loss not covered by our insurance or reimbursed by our insurance providers could materially and adversely affect our business, financial conditions and results of operations.

Any failure to maintain effective quality control procedures could have a material and adverse effect on our business, financial conditions and results of operations

The quality of our products is mainly dependent on the effectiveness of our quality control procedures, which in turn depends on a number of factors, including the implementation of the procedures, our quality control team, and our ability to ensure that our employees adhere to such procedures. For further details, please refer to the paragraph headed "Business — Quality management" in this document. There is no assurance that we will be able to continue to maintain effective quality control on the manufacturing of our papermaking felts in the future or that our quality management measures could avoid all quality issues of our products. Any failure to properly adopt or deterioration of our quality control procedures could result in the production of defective or substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to replace defective or substandard products and loss of purchase orders in the future. Further, in the event that our products do not meet the specifications and requirements agreed with or requested by our customers, we would be required to accept the return of such products and suspend the sales altogether. Alternatively, if our defective or substandard products result in losses suffered by our customers, our Group may be subject to product liability claims, litigation and other forms of legal actions for compensation. Regardless of the outcome of any claim of the alleged defect, we may have to incur significant financial resources and divert the time and attention of our management. Product failures or defects, any complaints from customers or negative publicity could lead to a decrease in sales of the relevant and/or other products, which could have a material and adverse impact on our business, financial conditions and results of operations.

Our sales may be affected by seasonality

We believe that our sales may be affected by seasonality. We generally record higher sales orders during the months of January and September to December than that of other months. Our Directors confirm that this was because our customers, whom are mainly PRC paper and paper products manufacturers and trading companies, generally placed orders prior to the Chinese New Year holidays. We may be exposed to risks associated with such seasonal factors and the fluctuation of demand of our products. Should there be any adverse change of market conditions during the peak season, our profitability may be adversely affected. Further, any comparison of sales and results of operations between periods within a single financial year for our Group may not be meaningful and should not be relied upon as an indicator of our Group's performance.

We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we sold papermaking felts to (i) customers located in Egypt and Russia (excluding Crimea); and (ii) a customer located in the PRC, with the ultimate end destination or end customers being located in Iran, according to the best knowledge of our Directors. Whilst Egypt was subject to targeted sanctions during the Track Record Period, Iran is subject to a comprehensive sanctions program administered by OFAC. Russia has been subject to a variety of additional sanctions measures since its actions and claims of sovereignty in Crimea were deemed to be illegal by the governments of many Western governments and governmental organisations, including additional sanctions measures adopted by the United States in 2018-2021 period. Further, the region of Crimea, which is part of Russia/Ukraine, is subject to comprehensive international sanctions (the rest of Russia and Ukraine are not subject to such sanctions), and while we have not conducted any business transactions in Crimea during the Track Record Period, the end customers of certain transactions were located in Russia (excluding Crimea). While we have implemented internal control measures to minimise our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

RISKS RELATING TO OUR INDUSTRY

Our profitability may be adversely affected by the intense competition in the papermaking felts manufacturing industry in the PRC

According to the Frost & Sullivan Report, the papermaking felts manufacturing industry in the PRC is dominated by several foreign invested enterprises with distinctive product development capability and advanced technology in felt design and production. If we are unable to control our costs in connection with our planned expansion or anticipate and respond to changing customer preferences, we may not be able to compete successfully. Foreign invested enterprises in the papermaking felts manufacturing industry in the PRC is generally considered more competitive over majority of the local enterprises. Our current and potential competitors have competitive advantage over the quality of papermaking felts or price, we may not be able to compete effectively which in turn could have an adverse impact on the sales of papermaking felts and its results of operations.

The demand for our papermaking felts are affected by the demand in the paper and paper products industry, which in turn is subject to the global economic conditions

According to the Frost & Sullivan Report, the consumption demand of paper and paperboard products in the PRC has increased from 2016 to 2020 at a CAGR of 3.2% as a result of factors such as growing population, accelerated urbanisation, economic growth and the significant growth of online retail sales and e-commerce in the PRC. In addition, the export volume of papermaking felts in the PRC recorded a growth from approximately 2.7 thousand tonnes in 2016 to approximately 3.8 thousand tonnes in 2020, representing a CAGR of 8.9%. Similarly, the export value of papermaking felts in the PRC also increased from USD84.9 million in 2016 to approximately USD99.4 million in 2020, representing a CAGR of 4.0%. The growth was mainly driven by the expansion of paper manufacturers in Southeast Asia during recent years with increasing number of factories opening in the region, boosting the demand of papermaking felts from the PRC manufacturers.

However, we are not able to assure you that the demand for paper and paper products, as well as papermaking felts will maintain the growth as seen in the past. The supply and demand condition for the papermaking felts manufacturing industry in the PRC may be affected by many factors, including changes in the social, political, economic and legal environments in the PRC, as well as changes in the PRC government's fiscal and economic policies. The business of papermaking felts manufacturers are generally sensitive to changes in the economic conditions, consumer confidence, consumer spending and customer preferences. Factors such as the PRC's slower economic growth in recent years may, to a certain extent, have cooled the general economic condition for the papermaking felts manufacturing industry.

Our business and prospects therefore depend principally on the economic conditions and performance of the paper and paper products industry in the PRC. Any downturn in the general economic conditions or outlook of the paper and paper products market may therefore adversely affect our performance. We cannot assure you that the demand for papermaking felts will continue to grow, or will grow at all, and any potential decline in the demand for the felts may have a material adverse impact on our business, financial conditions, results of operations and growth prospects.

Our business is subject to the uncertainties in the general economic conditions, as such, any severe or prolonged downturn in the global or PRC economy could materially and adversely affect our business and financial conditions

Economic conditions in the PRC are sensitive to global economic conditions. Since we derive a substantial portion of our revenue from the PRC, our business and prospects may be affected by economic conditions in the PRC. We rely on our customers which are PRC and overseas paper and paper products manufacturers and trading companies for our revenue. Due to the uncertain global economic conditions, particularly the current trade tension between the U.S. and the PRC, our customers' businesses may be materially and adversely affected, which in turn, may materially and adversely affect our business, results of operations and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The national and regional economies in China and our business may be adversely affected by factors beyond our control such as natural disasters, acts of war or terrorism and epidemics, including COVID-19

Our business is subject to general economic and social conditions in China. Certain factors beyond our control may adversely affect the economy, infrastructure and livelihood of people in the region where we conduct our business operations. Some regions in China may be susceptible to the threat of natural disasters such as earthquakes or epidemics such as Ebola and Severe Acute

Respiratory Syndrome (SARS). Serious natural disasters and acts of war or terrorism may result in, among others, power shortages or failures, loss of life, injuries, destruction of assets and disruption of our business operations. Severe communicable disease outbreaks may cause a widespread health crisis that materially and adversely affects economic systems and financial markets. Any of these factors and others beyond our control could have an adverse effect on the overall business sentiment and environment, create uncertainties in the region where we conduct our business operations, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

The outbreak of pneumonia-like illness named COVID-19 has been spreading globally. COVID-19 is highly infectious and has resulted in deaths in the PRC and other countries. On 30 January 2020, the World Health Organisation declared the outbreak of COVID-19 as a public health emergency of international concern and subsequently characterised COVID-19 as a pandemic on 11 March 2020. The PRC authorities have taken various measures, such as mandatory quarantine for residents and travelers, lockdown of certain cities and postponement of business units operation following the Chinese New Year holidays until mid of February 2020.

Taking into account the announcement of the local government in extending the Chinese New Year holiday to 9 February 2020, the time required for our staff to return to the production sites, the risk of coronavirus infection and the safety and health of our employees, we had decided to resume our production and sales activities in phases. On 14 February 2020, we had arranged for approximately half of our employees to report duty at our Chengdu Production Site and Shanghai Production Site. As at 25 February 2020, all of our employees had reported duty except for (a) 11 employees who were either under home quarantine or unable to access the transportation they needed as a result of the COVID-19 outbreak and (b) four employees who were on their entitled leave under their employment contracts. As at the Latest Practicable Date, none of our employees had failed to report duty as a result of the COVID-19 outbreak.

A prolonged outbreak of COVID-19 in the PRC could have a material adverse impact on our business operations, including further suspension of our production and restriction on delivery of our products to our customers and raw materials from our suppliers due to travel and shipment restrictions. Our business operations could be disrupted if any of our staff had or is suspected to have COVID-19 as we would be required to quarantine some or all of our staff and/or disinfect our production facilities. The duration and scale of such epidemic cannot be predicted or controlled by our Group and hence it may have significant and adverse impact on our business operations and operating results.

The PRC's legal system embodies uncertainties that could adversely affect our business, financial condition and results of operations

Our manufacturing operations is conducted entirely in the PRC and all of our employees are based in the PRC as at 30 June 2021. Our business and operations are therefore generally affected by and subject to the PRC legal system and PRC laws and regulations. Since the late 1970's, the PRC has been developing rapidly with many changes made to laws and regulations covering general economic matters or affecting our business and operations having been promulgated in the PRC. However, as the changes to these laws and regulations are relatively new, and due to the limited volume of published cases and clarification, interpretation of these laws, regulations and their changes involve uncertainties.

In addition, the enforcement of laws may be uncertain, and it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgement by a court of another jurisdiction. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. The differences in judgement caused by regional differences may create additional uncertainty as to the expected outcomes of litigation. Moreover, the interpretation of statutes and regulations may be subject to government policies reflecting domestic political, economic and social changes.

Future fluctuations in Renminbi and government control of currency conversion may affect our operations and financial position

During the Track Record Period, our sales transactions were mainly denominated in RMB, and to a lesser extent in US$. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our trade receivables denominated in US$ amounted to approximately RMB845,000, RMB1,373,000, RMB676,000 and RMB1,215,000, respectively. We cannot assure that there will not be any substantial fluctuation in the exchange rate of RMB against US$. If there was a fluctuation of 5% in the exchange rate of RMB against US$, it would have affected our profit after income tax by approximately RMB36,000, RMB58,000, RMB29,000 and RMB52,000, and affected our equity by approximately RMB36,000, RMB58,000, RMB29,000 and RMB52,000 for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. As we did not engage in any hedging activity, any substantial fluctuation in the currency rate of RMB against US$ may adversely affect our financial performance and profitability.

A substantial portion of our revenue and our expenditures are denominated in Renminbi, which is not a freely convertible currency. The PRC government imposes controls over the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE or its local branch, provided that we satisfy certain procedural requirements. However, capital account transactions must be approved by or registered with SAFE or its local branch. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Since a substantial portion of our cash flow from operations is denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to fund our business activities that are conducted in foreign currencies.

The PRC laws and regulations in connection with investment and loans by offshore holding companies to our PRC subsidiaries may delay or prevent our Company from using the [REDACTED] to make additional capital contributions or loans to our PRC subsidiaries, which could harm our liquidity and our ability to expand our business.

Any capital contributions or loans our Company or its offshore subsidiary, as an offshore entity, makes to the PRC members of our Group, including from the **[REDACTED]**, are subject to the PRC regulations. For example, the total of any offshore loans to the PRC members of our Group cannot exceed the difference between the registered capital and total investment of the relevant PRC member of our Group or twice the relevant PRC member's net assets, and such loans must be registered with SAFE or its authorised organisation or filed for record with the relevant information system of the SAFE.

In addition, our Group's capital contributions to the PRC members of our Group must be filed for record with the competent authorities of the MOFCOM. Our Group cannot assure that it will be able to complete these formalities on a timely basis, or at all. If our Group fails to complete these formalities, its ability to capitalise the relevant PRC members of our Group or fund their operations or to utilise the **[REDACTED]** in the manner described in "Future Plans and **[REDACTED]**" may be adversely affected, which could adversely affect the liquidity of the relevant PRC member of our Group, our Group's ability to expand its business through its subsidiaries' operations and its financial condition and results of operations.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprise SAFE Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**SAFE Circular 19**"), which became effective on 1 June 2015, foreign-invested enterprises shall be allowed to settle foreign exchange capital on a discretionary basis. Furthermore, where foreign-invested enterprises are engaged in equity investment in the PRC, they shall comply with the regulations on reinvestment in the PRC. While SAFE Circular 19 unlocks the restrictions on foreign exchange capital settlement, it is uncertain how the PRC authorities will interpret, apply and enforce SAFE Circular 19 and whether SAFE Circular 19 will be effective in unlocking the restrictions on foreign exchange capital settlement.

RISKS RELATING TO THE [REDACTED]

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

Prior to the **[REDACTED]**, there has been no public market for our Shares. Following the completion of the **[REDACTED]**, the Stock Exchange will be the only market on which our Shares are **[REDACTED]**. There is no guarantee that an active public trading market for our Shares will develop or be sustained after the **[REDACTED]**. In addition, we cannot assure you that the Shares will trade in the public market subsequent to the **[REDACTED]** at or above the **[REDACTED]**. The **[REDACTED]** will be determined by agreement between us and the **[REDACTED]** (for itself and on behalf of the **[REDACTED]**), and may not be indicative of the market price of the Shares following the completion of the **[REDACTED]**. If an active trading market for our Shares does not develop or is not sustained after the **[REDACTED]**, the market price and liquidity of our Shares may be materially and adversely affected.

The trading price of our Shares may be volatile, which could result in substantial losses to you

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, such as general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. In particular, the trading price performance of other companies in similar business may affect the trading price of the Shares. The performance and fluctuation of the market prices of other companies that have listed their securities in Hong Kong may also affect the volatility in the price of and trading volumes for our Shares. Recently, a number of companies have listed their securities, or 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 performance of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards companies listed in Hong Kong and may consequently impact the trading performance of the Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

Future sale or major divestment of shares by any of our Substantial Shareholders or Controlling Shareholders could adversely affect the prevailing [REDACTED]

There is no guarantee that our Substantial Shareholders or Controlling Shareholders 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 of our Substantial Shareholders or Controlling Shareholders, or that the availability of the Shares for sale by any of our Substantial Shareholders or Controlling Shareholders may have on the **[REDACTED]**. Sales of a substantial number of Shares by any of our Substantial Shareholders or Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing **[REDACTED]**.

Investors may experience difficulties in effecting service of legal process and enforcing judgements against our Company and our management

Our Company is a company incorporated in the Cayman Islands under the Companies Act with limited liability and the Companies Act differs in some respects from those of Hong Kong or other jurisdictions where investors may be located. As a result, the remedies available to the minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions.

Our Company's corporate affairs are governed by our Memorandum of Association and the Articles of Association, the Companies Act and the common law of the Cayman Islands. The rights of the Shareholders to take legal action against our Directors and our Company, actions by minority Shareholders and the fiduciary responsibilities of our Directors to our Company under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of the Shareholders and the fiduciary responsibilities of our Directors under the Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors may be located.

In addition, although our Company will be subject to the Listing Rules and the Takeovers Code upon the **[REDACTED]** of the Shares on the Stock Exchange, the Shareholders 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. Furthermore, the Takeovers Code does not have the force of law and only provide standards of commercial conduct acceptable for takeover and merger transactions and share repurchases in Hong Kong. As a result of any or all of the above, the Shareholders may have more difficulty in protecting their interests in the face of actions taken by our Company's management, directors or major shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions. For further details on the constitution of our Company and the company law of the Cayman Islands, please refer to the section headed "Summary of the Constitution of the Company and Cayman Islands Company Law" in Appendix IV to this document.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong

Our corporate affairs are governed by our Memorandum of Association and Articles of Association and by the Companies Act and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. This may mean that the remedies available to our Company's minority shareholders may be different from those they would have under the laws of other jurisdictions. A summary of the Cayman Islands company law is set out in Appendix IV to this document.

Certain facts, forecast and other statistics with respect to the papermaking felts manufacturing industry contained in this document may not be reliable

Certain facts and other statistics in this document relating to the papermaking felts manufacturing industry have been derived from various organisations that are generally believed to be reliable. However, our Directors cannot guarantee the quality or reliability of such source materials. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by our Company, our Sole Sponsor, the **[REDACTED]**, the **[REDACTED]**, the **[REDACTED]**, the **[REDACTED]** or any of them or their respective affiliates or advisers and, therefore, our Company makes no representation as to the accuracy of such facts and statistics. Such facts and other statistics include the facts and statistics as currently set out in the sections headed "Risk Factors" and "Business" in this document. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to official statistics produced for other economies and you should not place undue reliance on them.

Further, our Company cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

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

This document contains certain statements that are "forward-looking" and indicated by the use of forward-looking terminology such as "believe", "intend", "anticipate", "estimate", "plan", "potential", "will", "would", "may", "should", "expect", "seek" or similar terms. Prospective investors are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, although our Directors believe the assumptions related to those forward-looking statements are reasonable, 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. The risks and uncertainties in this regard consist of those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the enclosure of forward-looking statements in this document should not be regarded as representations by our Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.

Our Company strongly cautions you not to place any reliance on any information contained in press articles or media regarding our Group or the [REDACTED]

There may be press and media coverage regarding our Group or the **[REDACTED]**, which may include certain financial information, financial projections and other information about our Group that do not appear in this document. Our Company has not authorised the disclosure of any such information in the press or media. Our Company does not accept any responsibility for any such press or media coverage or the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this document is inconsistent or conflicts with the information contained in this document, our Company expressly disclaims it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase the Shares, you should rely only on the financial, operational and other information included in this document.