Potential investors should carefully consider all of the information set out in this document and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to the **[REDACTED]**. *If any of the possible events as described below materialises, our Group's business, financial position and prospects could be materially and adversely affected and the trading prices of the Shares could decline due to any of these risks, and you may lose all or part of your investments.*

This document contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group's actual results may differ materially from those as discussed in this document. Factors that could contribute to such differences are set out below as well as in other parts in this document.

RISKS RELATING TO OUR BUSINESS

We derive a substantial portion of our revenue from a limited number of major customers

We derive a substantial portion of our revenue from a limited number of major customer. For FY2019, FY2020 and FY2021, the percentage of our total revenue attributable to our top customer amounted to approximately 27.1%, 28.8% and 25.4%, respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 62.7%, 68.6% and 75.4%, respectively. In particular, a significant portion of our revenue during the Track Record Period was derived from Hubei Golden Three Gorges, Customer Group C, Changge Dayang and Customer E, which have been our top five customers throughout the Track Record Period.

Our Group seeks new business opportunities mainly through (i) incoming enquiries from new and existing customers; (ii) referrals from existing customers; (iii) identification of tender opportunities by regularly monitoring tender notices published by cigarette package manufacturers on various tendering platforms; and (iv) marketing and promotion activities carried out by our marketing department. Our customer typically confirm our engagement by entering into a framework sales agreement with us. The contract term of our framework sales agreements normally ranges from one year to two years. During the contract term, the customers are entitled to place purchase orders with us. Upon expiry of the term of the framework sales agreements, the customers may enter into negotiation with us for renewing the framework sales agreement under a new unit price for the products with similar terms and conditions, or, if applicable, repeat its supplier selection process again.

There is no assurance that any of our major customers will continue to place purchase orders with our Group in the future or we can successfully renew the framework sales agreements with these customers upon the same terms and conditions or at all. In the event that any of these major customers ceases to place purchase orders with our Group, reduces the amount of their purchase orders with us, declines to renew the framework sales agreements with us or requests for more favourable terms and conditions, our business, results of operations, financial condition and future prospects may be adversely affected.

There is no minimum purchase amount under the sales arrangements with our customers

Under the framework sales agreements with our customers, our customers are not bound by any minimum purchase commitment. The amount of purchase from our customers is set out in the relevant purchase orders issued to us from time to time during the term of the framework sales agreement. Our sales are typically made on the basis of individual purchase orders. As a result, our customers could reduce their order levels or cease placing orders altogether with little or no prior notice to us. We cannot assure you that we will be able to obtain orders from other customers to cover such unpredictable reduction in orders, and failure to do so could adversely affect our business, results of operations and financial condition.

Occurrence of natural disaster, widespread health epidemic or other outbreaks could have a material adverse effect on our business, financial condition and results of operations

Our business could be materially and adversely affected by natural disasters or the outbreak of a widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome (SARS) or COVID-19. The occurrence of natural disaster or a prolonged outbreak of epidemic illness or other adverse public health developments in the PRC could materially disrupt our business and operations.

There was an outbreak of COVID-19 in the PRC since early 2020. The PRC Government imposed a lockdown in Huanggang, Hubei Province from 23 January 2020 to 25 March 2020 (the "**Lockdown Period**"). Transport was severely restricted, public transits, airports and major highways were closed and all non-essential companies, including manufacturing companies like our Group, was ordered to close during the Lockdown Period. In response to the requirements of the local government authorities, our business operations were suspended during the Lockdown Period. Our Group has resumed business operation in full scale since late-March 2020.

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 restrictions. Our customers' business and operation may similarly be affected by the outbreak of COVID-19, resulting in reduction, suspension, delay or even cancellation of purchase orders placed with our Group. Further, our operations may be disrupted if any of our employees are suspected of being infected by COVID-19 since this could require us to quarantine some or all of our employees or disinfect our premises. This may affect our ability to fulfil the orders of our customers. Furthermore, if any of our suppliers are affected by COVID-19, and the supply of raw materials is disrupted, we may not have sufficient materials to support our orders and which may affect our Group's ability to meet the demands of our customers.

The duration and scale of such epidemic cannot be predicted or controlled by our Group. It remains uncertain as to when, or whether, the outbreak will be contained. If the outbreak of COVID-19 is not effectively controlled, it may have significant and adverse impact on our business, results of operations and financial position.

We are subject to credit risk in relation to the collectability of our trade receivables from customers

Our financial condition and profitability are dependent on the creditworthiness of our customers. We determine the credit term granted to our customers based on analysis of their credit profiles. However, our customers are subject to market conditions and their own business risks. We cannot assure you that the creditworthiness of our customers will not change should there be unanticipated adverse changes in the economy or extraordinary events adversely affecting specific customers, industries or markets. If the credit quality of our customer base decreases as a result of economic conditions or if our reserves for credit losses are not adequate, our business, results of operations and financial condition could be adversely affected.

As at 31 December 2019, 2020 and 2021, our trade receivables (net of allowance for impairment) amounted to approximately RMB148.5 million, RMB142.4 million and RMB145.1 million, respectively. Our sales are generally made on credit and we generally grant our customer a credit term ranging from 60 to 180 days. For FY2019, FY2020 and FY2021, our trade receivables turnover days were approximately 158.7 days, 166.8 days and 141.7 days, respectively. As at 31 December 2019, 2020 and 2021, our Group had allowance for impairment of trade receivables of approximately RMB3.6 million, RMB5.3 million and RMB4.9 million, respectively. In the event that our customers fail to settle our trade receivables, our cashflow may be adversely affected, and we may have to make loss allowance for impairment, write-off the receivables and/or incur legal costs to recover the outstanding amount from our customers, which may in turn result in material and adverse impact on our business, financial conditions and results of operations.

We may be exposed to credit risk in relation to the collectability of our bills receivables

During the Track Record Period, we generally grant our customers a credit term of 60 to 180 days from the date of billing. Our customers generally settle their payments by bank transfer or bank acceptance bills. As at 31 December 2019, 2020 and 2021, our bills receivables amounted to approximately RMB32.6 million, RMB9.2 million and nil, respectively. As at 31 December 2019, 2020 and 2021, our provision for impairment of bills receivables amounted to nil, approximately RMB72,000 and nil, respectively. Our Group's management determines the expected credit losses by taking into account the credit rating for issuing financial institutions and the bills receivables are adjusted for forward-looking estimates. We cannot assure you that the issuing financial institutions will not default on their obligations to settle the bank acceptance bills to us in the future. In the event that the issuing financial institutions fail to settle our bills receivables, our cashflow may be adversely affected, and we may have to make loss allowance for impairment, write-off the receivables and/or incur legal costs to recover the outstanding amount from the issuing financial institutions, which may in turn result in material and adverse impact on our business, financial conditions and results of operations.

We may not be able to sustain our growth by taking advantage of the expected growth in sales value of cigarette packaging paper in the PRC due to the high utilisation rate of our production facility

Our future growth and success depends significantly on our ability to adapt quickly to the developments in the cigarette packaging paper manufacturing industry, in particular, our ability to adapt to changes in the demand for our products from customers, which may require us to upgrade our production capabilities. The utilisation rates of our production facility were approximately 83.3%, 97.4% and 95.4% for FY2019, FY2020 and FY2021, respectively. Our future growth may be adversely affected if we are not able to expand our production capacity in time to meet the growing or changes in 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.

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

Our sales are dependent on the continued operation of our production facility. Our production facility is subject to inspection, maintenance and replacement of our machinery during which production capacity may be affected. Our production facility is also subject to operation risks and disruptions such as interruptions of utilities supplies including water and electricity, labour disputes and industrial accidents. A power surge or outage could disrupt or even result in the halt of our production process. There is no assurance that our machinery will not be damaged or lost as a result of, among others, improper operation, fire, adverse weather conditions, theft or robbery. We may also need to incur additional cost to repair or replace any damaged machinery or equipment. Machinery may also break down or fail to function normally due to wear and tear or mechanical or other issues. If any failed or damaged machinery cannot be repaired or replaced, or if any lost machinery cannot be replaced, in a timely manner, our operations and financial performance could be adversely affected.

In addition, our production process may be disrupted due to (i) natural disasters such as typhoons, earthquakes and floods; (ii) political instability, riots, civil unrest and terrorist attacks; (iii) epidemics such as the Severe Acute Respiratory Syndrome (SARS), the H5N1 avian flu, the human swine flu, also known as Influenza A (H1N1), or, most recently, COVID-19, since it could require our employees to be quarantined and/or our office premises and production facility to be disinfected; and (iv) other events that are beyond our control in the regions where we operate.

We may not be able to adjust the selling price of our products at our own discretion

Our customer typically confirm our engagement by entering into a framework sales agreement with us. The framework sales agreements set out the unit price for each of our products to be supplied, which is typically agreed at a fixed price per tonne. The contract term of our framework sales agreements normally ranges from one year to two years. Under the framework sales agreement, we shall be obliged to supply our products at the price specified therein and bear the risks associated with the fluctuations in our operations costs and the price of the raw materials. During the contract term, we are generally not entitled to adjust the selling price of our products, even though our operation costs may have increased due to any reason whatsoever. In the event that our operation costs increase and we are not able to adjust the selling price of our products, our operating results and profitability may be adversely affected.

Any price fluctuations of raw materials used in our production process may increase our production costs

The principal types of raw materials for our production process include white cardboard, film and other accessory materials such as glue and ink. Key factors affecting the purchase price of raw materials include supply and demand in the market, the policies of the PRC Government and market competition, many of which are beyond our control. For further details on the historical price trend of our raw materials, please refer to the paragraph headed "Industry overview — Price trend of major cost components" in this document.

Depending on the volume of our purchase, once a supplier is selected, we typically enter into a framework supply agreement with the supplier. The contract term of framework supply agreements is one year in general. During the contract term of the framework supply agreement, we are entitled to place purchase orders with the supplier for procurement of raw materials at the pre-agreed unit price as stated in the framework supply agreement.

We are generally required to renegotiate the terms of our framework supply agreements with the suppliers upon the expiry of the contract terms and we do not have any hedging activities to minimise the risk of price fluctuation of raw materials. Price fluctuations of our principal types of raw materials will affect our production costs, which may in turn affect our gross profit margin. We cannot assure you that we will be able to transfer the increase in cost of raw materials to our customers in a timely manner or at all. There is no guarantee that the cost of raw materials will remain stable in the future, or that any increase in price of raw materials will not lead to unexpected and potentially significant increase in our production costs. There is no assurance that we will be able to increase the price of our products without affecting our sales in the future. If we are unable to increase the prices of our products to set off any increase in cost of raw materials, our profitability and profit margins may be adversely affected.

Our products may not meet the evolving requirements and specifications of our customers if we fail to enhance our research and development capabilities

Our Directors believe that research and development is crucial to maintaining our competitiveness in offering products that match with the evolving requirements and specifications of our customers. During the Track Record Period, we made significant investments in research and development and incurred approximately RMB10.7 million, RMB10.4 million and RMB13.1 million for FY2019, FY2020 and FY2021, respectively. Through our research and development, we had continuously enhanced the anti-counterfeit features, appearances and eco-friendliness of our products, improved our production efficiency and expanded our product offerings in terms of texture, durability and colour mixture.

There is no assurance that we will successfully develop or implement any of the research and development projects or be able to complete such projects within their respective time and cost estimates. If we do not develop new technical know-how and introduce new product features which adequately satisfy the market demand and comply with the relevant government regulations or industry standards in a timely manner, our competitive position, sales and gross profit margins could be materially and adversely affected. In the event that we fail to enhance our research and development capabilities to meet the evolving demand of customers, our capabilities may be surpassed by our competitors, which may adversely impact our results of operations and future prospects.

Any infringement of our intellectual property rights or any infringement by us of third party intellectual property rights may adversely affect our reputation and profitability

Our research and development is crucial to maintaining our competitiveness in offering products that match with the evolving requirements and specifications of our customers. As at the Latest Practicable Date, our Group had registered 25 patents in the PRC which are, in the opinion of our Directors, material to our business with respect to our products and production process. For further details on our intellectual property rights, please refer to the paragraph headed "Statutory and general information — B. Further information about the business of our Group — 2. Intellectual property rights" set out in Appendix IV to this document.

If the technical know-how in our production is infringed by way of unauthorised copying, use or imitation, our business and reputation may be seriously affected and we may need to expend substantial resources on litigation and other legal processes to protect our intellectual property, which may in turn adversely affect our operations and profitability.

Conversely, there is also a risk that third parties may bring a claim against us for infringing their intellectual property rights, thereby requiring us to defend or settle any related intellectual property infringement allegations or disputes. We may be required to incur substantial costs to develop non-infringing alternatives or to obtain the required licence. There is no assurance that we will succeed in developing such alternatives or in obtaining such licence on reasonable terms, or at all, and any failure to do so may disrupt our manufacturing processes, damage our reputation and adversely affect our results of operations.

We have limited insurance coverage for potential liabilities in connection with our operations and products

Our business operations, particularly our production activities, involve inherent risks and occupational hazards, many of which are beyond our control. Industrial accidents, whether due to the malfunction of machinery or other reasons, may occur at our production facility from time to time. In such event, we may be fully or partially liable for loss of life and property, medical expenses, medical leave payments as well as fines and penalties for violation of applicable PRC laws and regulations. In addition, we may also experience interruptions in our operations and may be required to change the manner in which we operate our business as a result of government investigations or the implementation of safety measures as a result of such industrial accidents.

Our existing insurance may not be sufficient to cover all our potential damages and liabilities and any uninsured loss or damage to property, litigation or business disruption may cause us to incur substantial costs, which could materially and adversely affect our financial condition and operation results. The occurrence of certain events, including earthquake, fire, severe weather conditions, war, floods, power shortages and the consequent damages and disruptions resulting from them may not be adequately covered, or at all, by our existing insurance policies. If we incur substantial liabilities not covered by our existing insurance policies, or if our business operations are interrupted for a prolonged period of time, we may incur costs and losses that may materially and adversely affect our business, results of operations, financial conditions and business prospects.

The products we manufacture may contain defects that are detected only when the products are in use. We and our customers may experience defects which could require significant product recalls that could consume a substantial amount of time, effort and expense to resolve. Such defects could have a serious impact on our customers, which could harm our customer relationship and expose us to liability. There is no assurance that there will not be any material product liability claims against us in relation to our products in the future. We may expend significant resources and time to defend ourselves if legal proceedings are brought against us. The successful assertion of product liability claims against us could require us to pay significant monetary damages and/or subject us to product recall. If any such claims are made, our reputation may also be adversely affected, which may lead to loss of future business and may adversely affect our business, results of operations and financial conditions. If any of such claims were to be decided against us, we may be required to pay substantial damages. The occurrence of any such incidents and their consequential losses may not be adequately covered, or at all, by our insurance policies currently in place. Any such losses not covered by insurance will be charged directly against our profits. Losses incurred, or payments we may be required to make, could adversely affect our business, results of operations and financial conditions.

We are exposed to risk of inventory obsolescence

Our inventory mainly comprises raw materials, finished goods and packaging materials and others. We believe that maintaining appropriate levels of inventory helps us deliver our products in a timely manner and meet our customers' demands. As at 31 December 2019, 2020 and 2021, we had inventory of approximately RMB40.7 million, RMB37.4 million and RMB50.1 million, respectively. Our inventory turnover days were approximately 62.2 days, 57.4 days and 55.4 days, for FY2019, FY2020 and FY2021, respectively.

We generally maintain certain inventory level of raw materials to ensure stable operations, and we cannot assure you that we can accurately predict sales and avoid over-stocking or under-stocking of raw materials in our inventory. Inventory levels in excess of customer demand could result in inventory write-downs or increase in inventory holding costs. On the contrary, if we underestimate demand or if our suppliers fail to provide products in a timely manner, we may experience inventory shortages, which could in turn result in unfulfilled customer orders, loss of sales and a negative impact on customer relationship. Further, 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. Any of the abovementioned factors may have an adverse effect on our business, results of operations and financial conditions.

If we are unable to continue to be qualified for preferential income tax rate, our profitability and results of operation may be materially and adversely affected

Hubei Qiangda, our principal operating subsidiary, was recognised as a "High and New Technology Enterprise (高新技術企業)" by the Department of Science and Technology of Hubei Province (湖北省科學技術廳), the Department of Finance of Hubei Province (湖北省財政廳) and Hubei Provincial Taxation Bureau (湖北省國家稅務局) and Hubei Provincial Local Taxation

Bureau (湖北省地方稅務局). We have received certificates for such recognition since November 2017, and the current certificate was recognised by the Department of Science and Technology of Hubei Province (湖北省科學技術廳), the Department of Finance of Hubei Province (湖北省財政廳) and the Hubei Provincial Tax Service, State Taxation Administration (國家稅務總局湖北省稅務局) and is due to expire in December 2023. As a result of holding of such certificate, Hubei Qiangda was entitled to a preferential income tax rate of 15% during the Track Record Period. For FY2019, FY2020 and FY2021, our income tax expense amounted to approximately RMB4.7 million, RMB6.2 million and RMB6.4 million, respectively.

The relevant PRC Government authorities will take into account various factors in determining whether to award or renew any "High and New Technology Enterprise" certificate, and there is no assurance that Hubei Qiangda will be successful in renewing the aforesaid certificate. For further details, please refer to the paragraph headed "Regulatory overview — Laws and regulations relating to taxation — Enterprise income tax". Should the relevant PRC Government authorities refuse to renew Hubei Qiangda's status as a "High and New Technology Enterprise" for any reason, Hubei Qiangda will cease to be entitled to such preferential tax treatment and will be required to pay income tax at the normal rate of 25%. Under such circumstances, our profitability and results of operation may be adversely affected.

Our historical revenue, gross profit and gross profit margin may not be indicative of our future performance

For FY2019, FY2020 and FY2021, our revenue amounted to approximately RMB312.8 million, RMB318.3 million and RMB370.3 million; our gross profit amounted to approximately RMB65.8 million, RMB70.1 million and RMB81.8 million, respectively. During the corresponding periods, our gross profit margin was 21.0%, 22.0% and 22.1%, respectively.

However, the historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new business opportunities and to control our costs. There is no assurance that our operating and financial performance in the future will remain at a level comparable to those recorded during the Track Record Period.

There is an inherent risk in using our historical financial information to project our future financial performance, as they do not have any positive implication or may only reflect on our past performance under certain conditions. Our future performance will depend on, among others, our ability to secure new contracts, control our costs, market conditions in the PRC, and competition among our fellow industry players. All these may reduce the volume of orders awarded to us and/or limit profit margin of our orders.

We have certain non-compliance with the PRC laws and regulations. Any enforcement action against us may adversely affect our business and reputation

Our Group failed to apply for relevant construction permits before construction and obtain real estate certificates for five properties in our production facility and failed to make adequate social insurance and housing provident fund contributions for all our employees in accordance with certain legal and statutory requirements in the PRC during the Track Record Period. In respect of our failure to apply for the construction permits and to obtain the real estate certificates for our properties, pursuant to the relevant laws and regulations, the possible legal consequences include demolishing the relevant properties within a prescribed time limit, confiscating the income from the properties and payment of fine. In respect of our failure to make adequate social insurance and housing provident fund contributions for all our employees, pursuant to the relevant laws and regulations, the possible legal consequences include payment of all outstanding contributions and fines and compulsory enforcement by the PRC court. For further details of the non-compliance incident, please refer to the paragraph headed "Business — Legal compliance" in this document. If any of the government authorities takes enforcement action against us in relation to the non-compliance incidents, we may be ordered to pay fines and/or other penalties, which could adversely affect our business and reputation.

Any delay or cessation in the supply of raw materials from our major suppliers without timely replacement may interrupt our operations

Our production of cigarette packaging paper requires an adequate supply of white cardboard, film and other accessory materials such as glue and ink. We relied on our major suppliers for a stable supply of raw materials during the Track Record Period. For FY2019, FY2020 and FY2021, the percentage of our total purchases attributable from our top supplier amounted to approximately 15.4%, 21.9% and 22.6%, respectively, while the percentage of our total purchases from our top five suppliers combined amounted to approximately 52.3%, 59.0% and 54.0%, respectively. We anticipate that we will continue to rely on our major suppliers for a significant portion of our purchases. Should any of our major suppliers delay or cease to supply raw materials to us and we are not able to procure necessary raw materials from alternative suppliers in a timely manner, our production may be interrupted. Any interruption in the supply of raw materials of the required quantities or quality may affect our production schedule, which may adversely affect our reputation and business relationship with our customers and consequently affect our results of operations and financial conditions.

Our sales may be subject to seasonal fluctuations

Our business is in the upstream sector within the cigarette industry value chain where cigarette sales to consumers are at the end of the value chain. Our sales largely correspond to the fluctuations in the sales of the cigarette industry in the PRC. Demand for cigarettes in the PRC is generally higher during Chinese New Year as the practice of gifting cigarettes is common in Chinese culture. Some of our customers may place more purchase orders with us prior to the Chinese New Year to cope with their production schedule. We may therefore record higher sales before Chinese New Year. For further information, please refer to the paragraph headed "Business — Marketing — Seasonality" in this document. During such period with higher sales, we may not have sufficient production capacity to meet all of our customers' purchase orders and demands, which in turn may limit our revenue or even adversely affect our business relationship with our customers. As a result, our business and results of operations may be adversely affected.

The demand for our cigarette packaging paper is affected by the demand for cigarettes in the PRC, which in turn is subject to the prices of cigarettes and economic conditions in the PRC

We supply our products mainly to cigarette package manufacturers which operate in different provinces of the PRC. To a much lesser extent, some of our customers are trading companies which on-sell our products to cigarette package manufacturers. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. Therefore, demand for our cigarette packaging paper is highly associated with the demand for cigarettes in the PRC.

Demand for cigarettes is dependent on, amongst other factors, prices of cigarettes and economic conditions in the PRC. For instance, increase in tobacco tax imposed by the PRC Government may result in an increase in retail prices of cigarettes and adversely affect the demand for cigarettes. Likewise, the demand for cigarettes is influenced by the purchasing power and preferences of consumers which is dependent on the PRC economic conditions. Any downturn in the PRC economic conditions or outlook may adversely affect the demand for cigarettes.

We cannot assure you that the demand for cigarettes will continue to grow, or will grow at all. Any potential decline in the demand for cigarettes due to increase in cigarette prices or downturn in the PRC economic conditions may have a material adverse impact on our business, results of operations, financial conditions and growth prospects.

If we lose any of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, our operations could be disrupted and the growth of our business could be delayed or restricted

Our success depends on the continued service of our executive Directors, including Mr. Chen and Mr. Yu. These key personnel manage our Group, develop and execute our business strategies and manage our relationship with key customers and suppliers. If we lose the services of any of our executive Directors, it could be very difficult to find, allocate and integrate adequate replacement personnel into our operations, which could adversely affect our operations and the growth of our business.

Moreover, we rely on the collective experience of our technically skilled employees, primarily the experienced engineers, production personnel, technical personnel and other skilled employees, in our manufacturing process to implement our growth plans and to ensure that we continuously evaluate and adopt new technologies to meet our customers' needs. There is intense competition for the services of these personnel in the cigarette packaging paper manufacturing industry. If we are unable to retain our existing personnel or attract, assimilate and retain new experienced personnel in the future, our operations could be disrupted and the growth of our business could be delayed or restricted.

We rely on logistics service providers to deliver our products to customers

In general, we are responsible for the transportation of products to the destination specified by our customers on or before the date as stipulated in the purchase orders. The transportation costs and other related expenses are borne by us. We engage third party logistics service providers for the delivery of our finished goods to the destination specified by our customers. For further details, please refer to the paragraph headed "Business — Logistics" in this document. For FY2019, FY2020 and FY2021, we incurred freight charges of approximately RMB4.6 million, RMB4.1 million and RMB5.3 million to third party logistics service providers, respectively.

There is no assurance that our products will be delivered smoothly and without delay to our customers. Disruptions to delivery may be caused by reasons beyond our control, including but not limited to natural disasters, unfavourable weather conditions and labour strikes. 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. Further, in the event that the third party logistics services providers refuse to provide transportation services to us, or only agree to provide transportation services at a higher price, our business, profit margins and results of operations may be adversely affected.

Our borrowing levels 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, results of operations and financial conditions

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 2019, 2020 and 2021, we had bank borrowings of approximately RMB24.5 million, RMB21.5 million and RMB10.0 million, respectively. We may not be able to obtain bank loans or renew existing credit facilities in the future on favourable terms.

Our indebtedness could materially and adversely affect our liquidity. 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. 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, results of operations and financial conditions may be materially and adversely affected.

The determination of fair value changes of financial assets at fair value through profit or loss ("FVPL") is based on significant unobservable inputs, and therefore inherently involves a certain degree of uncertainty. Fair value changes of such assets could adversely affect our financial condition and results of operation

For FY2019, FY2020 and FY2021, we have purchased and disposed financial assets at FVPL with amount of approximately RMB8.0 million, RMB169.1 million and RMB215.0 million, respectively. We use unobservable inputs, such as expected rate of return, in valuing our financial assets at fair value through profit or loss. Accordingly, such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. In addition, fair value changes of financial assets at fair value through profit or loss could adversely affect our financial condition and results of operation. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair value of the relevant financial assets. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the 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 financial condition and results of operation. For further information, please refer to note 3.3 of the Accountant's Report as set out in Appendix I to this document.

We may incur additional costs for compliance with environmental protection laws

Our operations are subject to environmental protection laws and regulations in the PRC because our production involves the generation of emissions and discharge of waste water and solid waste which could cause potential pollution to the environment. We are committed to conducting our business operations in compliance with all applicable environmental laws and regulations. For details of our measures taken, please refer to the paragraph headed "Business — Environmental, social and corporate governance matters" in this document. In the event of any changes in the PRC laws and/or regulations and/or government policies on environmental protection and more stringent requirements are imposed on our Group, we may have to incur extra costs and expenses to comply with such requirements and our business and results of operations may be adversely affected.

If we fail to comply, or are alleged to fail to comply, with the relevant PRC laws, regulations or government policies on environmental protection, we may be involved in costly litigation or subject to penalties or other sanctions imposed by the relevant PRC judicial or governmental authorities.

We may grant share-based awards in the future under the Share Option Scheme, which may result in significant share-based payment expenses

We have adopted a Share Option Scheme on [●] for the purpose of enabling us to grant options to eligible participants as incentive or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest. We may grant equity awards, which we believe is of significant importance to our ability to attract and retain key personnel and employees. As a result, we may recognise significant share-based payment expenses in the future, which could have an adverse effect on our financial condition and results of operations. For further details of the Share Option Scheme, please refer to the paragraph headed "D. Share Option Scheme" in Appendix IV to this document.

Our business plans and strategies may not be successful or be achieved within the expected time frame or within the estimated budget

We intend to further strengthen our market position, increase our market share and capture the growth in the PRC cigarette packaging paper manufacturing industry by (i) expanding our production capacity, production efficiency and product portfolio; (ii) enhancing our research and development capabilities; (iii) enhancing our enterprise resource planning system and infrastructure systems to improve our operational efficiency; and (iv) increasing our marketing efforts in various provinces in the PRC. However, our plans and strategies may be hindered by risks including but not limited to those mentioned elsewhere in this section. There is no assurance that we will be able to successfully maintain or increase our market share or grow our business successfully after deploying our management and financial resources. Any failure in maintaining our current market position or implementing our plans could materially and adversely affect our business, financial conditions and results of operations.

Our profitability may be affected by the potential increase in fixed costs upon our planned acquisition of additional machinery and equipment and our planned construction of additional properties

It is part of our business strategies to acquire additional machinery and equipment and construct additional properties to cope with our business development by utilising the net **[REDACTED]** from the **[REDACTED]**. For further details on our expansion plan, please refer to the section headed "Future plans and use of **[REDACTED]**" in this document.

As a result of the acquisition of additional machinery and equipment and construction of additional properties, it is expected that additional depreciation will be charged to our profit and loss account and may therefore affect our financial performance and operating results. Based on the accounting policies adopted by our Group, it is estimated that additional depreciation expenses on property, plant and equipment of approximately RMB7.0 million will be incurred per annum after we have acquired all the machinery and equipment that we intend to purchase and upon completion of the construction of the additional properties under our business expansion plan. In addition to depreciation expenses, it is also expected that we will incur other fixed cost upon our planned expansion in production capacity which include (i) renovation costs incurred from the construction of new properties; and (ii) administrative expenses for the operation of the expanded production facilities.

Our planned investments in property, plant and equipment will increase our fixed costs but there is no assurance that there will be a satisfactory increase in our operational and financial performance as a result. In the event our operational and financial performance does not improve proportionately following our expansion in production capacity, our business, financial position and prospects may be adversely affected.

RISKS RELATING TO OUR INDUSTRY

Increasing PRC regulatory or industry requirements for cigarette packaging could materially and adversely affect our business

In 2014, the STMA published the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》), which limit the cost of cigarette packaging by setting a maximum ratio on the packaging cost to the cigarette selling price to avoid excessive packaging. Under these requirements, the ratio for tier 1 to tier 3 cigarettes must be no more than 8% to 11% and the ratio for tier 4 to tier 5 cigarettes must be no more than 12%. The PRC cigarette packaging industry could be negatively affected by these requirements or any future regulatory control, industry policies or applicable guidelines or requirements, as they may reduce PRC cigarette manufacturers' spending on cigarette packaging or otherwise place negative pricing pressure on cigarette package manufacturers. This may cause cigarette package manufacturers to reduce their demand for our products or result in increased competition among cigarette packaging paper manufacturers and drive down the selling prices of our products. If we are unable to adapt to such changes, our business and results of operations may be materially and adversely affected.

Our sales of cigarette packaging paper are dependent on the PRC legislative and regulatory control on cigarette consumption and awareness of health concerns

According to the Industry Report, the PRC Government has promulgated a series of legislative and regulatory control on the cigarette industry and health promotion initiatives. Major legislative and regulatory control and initiatives include:

- Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) which took effect on 1 April 1987 and was last amended on 6 February 2016, and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which took effect on 1 May 2011 and was subsequently amended on 19 January 2016, prohibits smoking in indoors public areas. Conspicuous no-smoking warnings and signs shall be set up in public operations. Various provincial and municipal government authorities such as Beijing, Shanghai, Shenzhen and another 16 provinces had issued their detailed rules on smoking control in public areas in recent years;

- The Provisions of Regulating the Packaging and Labeling of Domestic Sales of Tobacco (《關於規範境內銷售捲煙包裝標識的規定》), which came into effect in 2006, requires, amongst others, the warning statement of "Smoking is harmful (吸煙有害健康)" to be shown on cigarette packages and the tobacco manufacturers are responsible for ensuring the compliance with such provisions. The latest announcement "Notice of China National Tobacco Corporation on Further Strengthening the Labeling of Warning Signs on Cigarette Packages (《中國煙草總公司關於進一步加大捲煙包裝警語標識力度的通知》)" issued in 2011, amongst others, prescribes additional requirements on the font size of the warning statement and colour difference for the relevant backgrounds;

- The Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), which was amended by the Standing Committee of the National People's Congress in April 2015, prohibits the publication of tobacco advertisements in the mass media or public places, public transportation and outdoors;

- The "Healthy China 2030" Planning Outline (《健康中國2030規劃綱要》), which was issued by the State Council of the PRC in October 2016, emphasised the need to comprehensively push forward the implementation of tobacco control agreements, intensify tobacco control efforts, and improve the effectiveness of tobacco control through pricing, taxation, and legal means. Further publicity and education on tobacco control will be carried out. The PRC Government will actively promote a smoke-free environment, strengthen the supervision and law enforcement of tobacco control in public places and target to reduce the smoking rate among people aged 15 or above to 20 percent by 2030;

- The Law of the People's Republic of China on the Promotion of Basic Medical and Health Care (《中華人民共和國基本醫療衛生與健康促進法》) was issued by the Standing Committee of the National People's Congress on 1 June 2020 for the purposes of developing the medical and health care cause, ensuring that citizens enjoy basic medical services, improving the health care level of citizens, and promoting the construction of healthy China according to the Constitution of the PRC. The PRC Government will take measures to reduce the harm of smoking to the health of citizens, and control smoking in public places. Supervision and law enforcement will be strengthened. Tobacco product packaging should be printed with warnings describing the dangers of smoking. The sale of tobacco to minors is prohibited.

There is no assurance that the PRC Government will not promulgate any further legislative or regulatory control measures on the PRC cigarette market or industry. In the event that any such measures are promulgated, cigarette consumption and the size of the overall PRC cigarette market may further shrink, as a result of which the demand for cigarette packaging paper may also be negatively affected. If cigarette consumption and demand for cigarette packaging paper decrease, our business and results of operations could be materially and adversely affected.

The global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarette, which in turn would affect the demand for cigarette packaging in the PRC and our sales of cigarette packaging paper. As our revenue was derived from business relating to the sales of cigarette packaging paper during the Track Record Period, in the event that cigarette demand in the PRC shrinks significantly and we are unable to promptly shift our product mix and customer base to other end markets, our business, results of operations, financial condition and future prospects could be adversely affected.

Concerns and awareness on public health will affect the cigarette industry, which will in turn affect our business

Smoking cigarette causes many types of cancer, including but not limited to lung, esophagus, etc. It is considered that quitting smoking reduces the health risks caused by exposure to cigarette. The global trend of increasing awareness of health-related issues associated with smoking may adversely affect the demand and sales of cigarettes, which will in turn affect our business. Given that cigarettes are generally considered to be hazardous to health, there is no assurance that the public will not, in the future, change their habits and reduce consumption of cigarettes. In the event that the public reduces their consumption of cigarettes or any substitute in replacement of cigarettes appears in the future, the cigarettes industry will shrink significantly, which will in turn adversely affect our business.

Emerging substitutes for traditional cigarettes such as electronic cigarettes could result in lower demand for traditional cigarettes, which may in turn hamper the growth in the cigarette packaging paper manufacturing industry and adversely affect our business, results of operations and financial condition

According to the Industry Report, there is an increasing number of smokers who turn to substitutes of traditional cigarettes, such as electronic cigarettes. Along with the development and growth in the electronic cigarette market, tobacco companies around the globe have successively entered into the electronic cigarette market. As compared to traditional cigarettes, electronic cigarettes are generally perceived to be trendier, more environmentally friendly, less addictive and inflict less harm on smoker and on third parties. Smokers, especially younger generations, would generally consider electronic cigarettes as an alternative to traditional cigarettes, taking into consideration the aforementioned perceived advantages of electronic cigarettes over traditional cigarettes. Given no cigarette packaging paper is involved in the production of electronic cigarettes packaging, the rise of electronic cigarettes in the PRC is a potential threat to the cigarette packaging paper manufacturing industry.

Notwithstanding the rise in electronic cigarettes in the PRC in recent years, electronic cigarettes only accounted for less than 2.0% of the PRC cigarette industry in 2020. Therefore, electronic cigarettes are yet to be an immediate threat to the traditional cigarette industry. Further, many smokers in the PRC still perceive traditional cigarettes as classier and superior. Demand for traditional cigarettes is still relatively inelastic, and there is no sign of a major shift in demand from traditional cigarettes to electronic cigarettes up to date that could hamper the growth of the traditional cigarette industry in the PRC.

On 26 November 2021, China's State Council amended the "Implementing Regulation of the Tobacco Monopoly Law" to the effect that electronic cigarettes are also subject to the same monopoly requirements imposed on traditional cigarettes. The amendments are perceived to prevent an exponential growth of electronic cigarettes in the PRC in the future, which in turn protects the traditional cigarette industry as well as the cigarette packaging paper manufacturing industry in the PRC.

The increasing popularity of electronic cigarettes may capture the market share and lower the demand for traditional cigarettes. Since our Group is a cigarette packaging paper manufacturer and our products are generally used in the manufacture of cigarette packages for cigarette brands in the PRC, a decrease in demand for traditional cigarettes may hamper the growth in the cigarette packaging paper manufacturing industry in the PRC, resulting in a lower demand for our cigarette packaging paper and materially and adversely affect our business, results of operations and financial conditions.

Our business is subject to intense competition and may be negatively affected by further consolidation of cigarette manufacturers and brands and any upstream expansion by cigarette package manufacturers

According to the Industry Report, the cigarette packaging paper manufacturing industry in the PRC is fragmented with over 200 cigarette packaging paper manufacturers competing in the market and the top five manufacturers accounted for a total market share of approximately 12.6% in 2020 in terms of sales value. On the other hand, the overall cigarette packaging paper manufacturing industry in Hubei is concentrated with the top five manufacturers accounted for a total market share of approximately 46.8% in Hubei Province in 2020 in terms of sales value. We were ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) in Hubei Province in 2020, with a market share of approximately 14.9%, in Hubei Province, according to the Industry Report. For details of the competitive landscape, please refer to the section headed "Industry overview" in this document. Should our competitors equip themselves with, among other things, industry knowledge, technical know-how, machinery or product features that are comparable to or better than ours, we might not be able to maintain our market position and our business, results of operations, financial conditions and future prospects might be adversely affected.

In addition, if any of our customers diversify their business and engage in upstream expansion to manufacture cigarette packaging paper, this may intensify competition in our industry. If, for any reason, any or all of our customers decide to expand upstream and produce all or a substantial portion of their required packaging materials in the future, such customers may cease to place orders with us or may substantially reduce the amount of orders placed with us, and our financial conditions, results of operations and future prospects could be materially and adversely affected.

We are operating in an industry which is subject to extensive and evolving laws and regulations, failure to comply with which could subject us to severe penalties

Our products are required to comply with extensive PRC laws, regulations, industrial technical standards and specifications required by our customers, which may change from time to time beyond our control. If any of such laws, regulations or industrial standards are modified or become more stringent beyond our existing technical capacities, we will be required to change our business plan, incur additional costs and resources to enhance our production facilities, to add or change our product features, and to provide training and recruit more technical personnel to comply with these new requirements and standards, which will increase our cost of production and may adversely affect our profitability. We cannot assure you that we will be able to comply fully with the current and future PRC laws, regulations, industrial technical standards and specifications required by our customers. Failing to meet these prescribed standards might subject ourselves to various penalties, including fines or suspension of our operations. Our business, financial position and prospects may be materially and adversely affected.

We are exposed to risks of general economic downturn and deteriorating market conditions in the PRC

As our business and operations are based in the PRC, our business growth is primarily dependent upon the economy and market conditions in the PRC. The market conditions are directly affected by, among other things, the global and local political and economic environments, such as uncertainties about the outbreak of COVID-19 and the Sino-U.S. trade conflicts.

Any sudden downturn in the general economic environment or change in political environment in the PRC beyond our control may adversely affect the financial market sentiment in general. Severe fluctuations in market and economic sentiments may also lead to a prolonged period of sluggish consumption activities. As such, our revenue and profitability may fluctuate and we cannot assure you that we will be able to maintain our historical financial performance in times of difficult or unstable economic conditions.

RISK RELATING TO CONDUCTING BUSINESS IN THE PRC

The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could adversely affect our business, results of operations and financial condition

All of our revenue was generated from the PRC, and substantially all of our assets are located in the PRC. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in the PRC.

The economy of the PRC differs from the economies of most other developed countries in many respects, including the extent of government involvement, level of development, growth rate and governmental control over foreign exchange. The PRC's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in the PRC is still owned by the PRC Government. The PRC Government continues to play a significant role in regulating and supporting industrial development. It also exercises influence over PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in the PRC and, in turn, our business. While the PRC economy has experienced significant growth in the past 30 years, such growth has been uneven across both geographic regions and the various sectors of the economy. The PRC Government has implemented various measures to influence growth rates and to guide the allocation of resources. Some of these measures benefit the overall PRC economy but may have a negative effect on us. For example, our results of operations and financial condition could be adversely affected by governmental monetary policies, changes in interest rate policies, tax regulations or policies and regulations affecting the development of the cigarette and related industry.

Uncertainties with respect to the PRC legal system could adversely affect our business, results of operations and financial conditions

The PRC legal system 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 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past four decades has significantly enhanced the protections afforded to various forms of foreign investment in the PRC. Our PRC subsidiary is subject to laws and regulations applicable to foreign investment in the PRC in general and laws and regulations applicable to foreign-invested enterprises in particular.

However, these laws, regulations and legal requirements may change frequently, and their interpretation and enforcement involve uncertainties in different locations. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. In addition, such uncertainties, including the inability to enforce our contracts, could adversely affect our business and operations. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published in a timely manner or at all, that may have retroactive effects. As a result, we may not be aware of our violation of these policies and rules until some time after the violation, or we may have to go through further approval, registration or filing procedures as required by the relevant PRC governmental authorities. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and our foreign investors.

It could be difficult to enforce any judgments obtained in non-PRC courts against our PRC subsidiary and assets located in the PRC

Our Company is registered under the laws of the Cayman Islands, but all of our operations and assets and most of our Directors and senior management are stabilised in the PRC. It may be difficult or impossible for investors to effect service of process on us or those persons in the PRC. Moreover, the PRC does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgment of a non-PRC court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Final judgments for civil and commercial cases and arbitral awards obtained in a recognised Hong Kong court or Hong Kong arbitral tribunal may be enforced in the PRC, provided that certain conditions are satisfied. On 18 January 2019, the Supreme People's Court and the Department of Justice of Hong Kong signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters between the Courts of the Mainland and of the Hong Kong Special Administrative Region" (《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》) ("**Arrangement**").

The Arrangement provides for the scope and mechanism regarding the reciprocal recognition and enforcement of judgments in civil and commercial matters between the PRC and Hong Kong. It covers both monetary and non-monetary relief, as well as rulings rendered for some intellectual property lawsuits. However, for judgment that provides for punitive or exemplary damages, the punitive or exemplary part of the damages would not be recognised and enforced, except where the judgment is rendered in respect of the claims specified in the Arrangement. The Arrangement has not come into effect and will only take effect after necessary procedures to enable implementation have been completed and will apply to judgments made on or after its commencement date. However, there are uncertainties as to the outcome of any applications to recognise and enforce such judgments and arbitral awards in the PRC.

Furthermore, an original action may be brought in the PRC courts against us or our Directors and senior management only if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

Our Company is a holding company that relies on dividend payments from our subsidiaries for funding and payment of dividends from our PRC subsidiary are subject to restrictions under PRC laws and PRC withholding tax

PRC laws require dividends to be paid out of net profit calculated according to PRC accounting principles, which, in many aspects, differ from the generally accepted accounting principles in other jurisdictions. Companies including foreign-invested enterprises, such as our PRC subsidiaries, are also required to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. In addition, such dividends are also subject to PRC withholding tax.

Our Company is a holding company registered in the Cayman Islands and our business and operations are conducted through Hubei Qiangda, our principal operating subsidiary. The availability of funds to pay distributions to Shareholders depends on dividends received from Hubei Qiangda. If Hubei Qiangda incurs any debts or losses or otherwise there are insufficient retained after-tax profits after deducting statutory reserves, the amount of dividends that Hubei Qiangda can declare will be limited and as a result, our ability to pay dividends and other distributions to Shareholders will be restricted.

Governmental control of currency conversion may limit our ability to use our turnover effectively and the ability of our PRC subsidiary to obtain financing

All of our revenue is currently generated in RMB. Any future restrictions on currency exchanges may limit our ability to use turnover generated in RMB to make dividends or other payments in Hong Kong dollars, or US dollars or fund possible business activities outside the PRC. Although the PRC Government introduced regulations in 1996 to allow greater convertibility of RMB for current account transactions, significant restrictions still remain, including primarily the restriction that enterprises may only buy, sell and/or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial documents. In addition, remittance of foreign currencies abroad and conversion of RMB for capital account items, including direct investment and loans, is subject to government approval in the PRC, and companies are required to open and maintain separate foreign exchange accounts for capital account items. On 19 November 2012, SAFE promulgated the Notice on Further Improve and Adjust the Direct Investment Foreign Exchange Administration Policies (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》 (the "**Circular 59**") according to which, certain administrative approval procedures were simplified, or abolished to approve the direct investment foreign exchange administration. For example, foreign-invested enterprises, like our PRC subsidiary, may increase its registered capital by using its legal earnings including capital reserves, surplus reserves or accumulated profits or re-invest them without obtaining prior foreign exchange approvals from SAFE. Furthermore, the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which came into effect on 1 June 2015 and was amended on 30 December 2019, cancels certain administrative approval procedures relating to the domestic and overseas direct investment in certain districts, and the foreign exchange registration for domestic direct investment shall be directly reviewed and handled by qualified banks. However, we cannot assure you the regulatory authorities of the PRC will continue or further lift the restrictions on foreign exchange administration or will not impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

We may be treated as a resident enterprise for PRC tax purposes and be subject to PRC taxation on our worldwide income, which could result in unfavourable tax consequences to us and our non-PRC Shareholders

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**"), an enterprise incorporated in a foreign country or region may be classified as either a "non-resident enterprise" or a "resident enterprise". If an enterprise incorporated in a foreign country or region has its "de facto management bodies" located within the PRC, such enterprise will be considered a PRC tax resident enterprise and will normally be subject to the enterprise income tax of 25% on its worldwide income. For further information, please refer to the paragraph headed "Regulatory overview — Laws and regulations relating to taxation — Enterprise Income Tax" in this document.

It is unclear how the PRC tax authorities will determine whether an offshore entity is a non-PRC resident enterprise. We cannot assure you that PRC tax authorities will not consider us to be a "resident enterprise". If the PRC tax authorities subsequently determine that we or our offshore holding companies are deemed to be or should be classified as "resident enterprises", such entity or entities may be subject to enterprise income tax at a rate of 25% on their worldwide income, which may have an impact on our effective tax rate and materially and adversely affect our business, financial position and prospects.

In addition, under the EIT Law, to the extent dividends from earnings derived since 1 January 2008 are sourced within the PRC and if we were considered a "resident enterprise" in the PRC, PRC income tax at the rate of 10% (or a lower rate pursuant to an applicable tax treaty) may be required to be withheld from dividends on our Shares payable by us to investors that are "non-resident enterprises" so long as such "non-resident enterprise" investors do not have an establishment or place of business in the PRC or if, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. Furthermore, any gains realised on the transfer of our Shares by such "non-resident enterprise" investors would be subject to PRC income tax at a rate of 10% if such gains were deemed income derived from sources within the PRC and if we were considered a "resident enterprise" in the PRC. It is unclear whether, if we are considered a PRC "resident enterprise", holders of our Shares may be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or areas. If we are required under the EIT Law or other related regulations to withhold PRC income tax on our dividends payable to foreign holders of our Shares which are "non-resident enterprises", or if our Shareholders are required to pay PRC income tax on the transfer of our Shares under PRC tax laws, the value of an investment in our Shares may be materially and adversely affected.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment

On 3 February 2015, the SAT issued the Announcement on Several Issues Concerning the Enterprise Income Tax Deriving from the Indirect Transfers of Properties among Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (the "**Announcement 7**") which was amended on 17 October 2017 and 29 December 2017. Announcement 7 repealed certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on Income From Transfers of Equity Interests by Non-resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (the "**Circular 698**"), issued by the SAT on 10 December 2009 with retroactive effect from 1 January 2008, and the Announcement on the Administration of Enterprise Income Tax on Income of Non-resident Enterprises (《關於非居民企業所得稅管理若干問題的公告》), issued by the SAT on 28 March 2011, with respect to a non-resident enterprises transferring the equity interests of a PRC resident enterprise indirectly through disposing of the equity interests of an overseas holding company, or Indirect Transfer, and stipulates more detailed rules for tax treatment of indirect transfer of equity interest in PRC resident enterprises and other assets situated in the PRC. Announcement 7 has broadened the scope of the Indirect Transfer under Circular 698 to non-resident enterprises' indirect transfer of (i) the assets of an "establishment or place" situated in the PRC; (ii) real estate/immovable property situated in the PRC; and (iii) equity interest in Chinese resident enterprises. The Announcement 7 has also elaborated on how to determine that an Indirect Transfer has "a reasonable commercial purpose" and specified the legal consequences for failing to withhold and pay tax. We may conduct acquisitions involving changes in corporate structures in the future and Announcement 7 may be interpreted by the relevant tax authorities to be applicable. As a result, we may be required to expend valuable resources to comply with Announcement 7 and other related tax rules, which could adversely affect our business, results of operations and financial conditions in the future.

RISKS RELATING TO THE [REDACTED]

Investors will experience immediate dilution

Given the **[REDACTED]** of our Shares is higher than the consolidated net tangible assets per Share immediately prior to the **[REDACTED]**, investors of our Shares in the **[REDACTED]** will experience an immediate dilution in the unaudited pro forma adjusted combined net tangible assets value to approximately HK$**[REDACTED]** per Share and HK$**[REDACTED]** per Share, respectively, based on the indicative **[REDACTED]** Range of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**.

There has been no prior [REDACTED] market for the Share and the liquidity, market price and [REDACTED] volume of the Share may be volatile

Prior to the **[REDACTED]**, there is no **[REDACTED]** market for the Shares. The **[REDACTED]** of, and the permission to **[REDACTED]** in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the **[REDACTED]**. Factors such as variations in our Group's revenues, earnings and cash flows, acquisitions made by our Group or our competitors, industrial or environmental accidents suffered by our Group, loss of key personnel, litigation or fluctuations in the market prices for the services provided or supplies required by our Group, the liquidity of the market for the Shares, and the general market sentiment regarding the cigarette packaging paper manufacturing industry in the PRC could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the **[REDACTED]** or at all.

Granting options under the Share Option Scheme may affect our Group's results of operation and dilute Shareholders' percentage of ownership

Our Company may grant share options under the Share Option Scheme in the future. The fair value of the options on the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may adversely affect our Group's results of operation. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of the Shareholders and the net asset value per Share. No option has been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. For a summary of the terms of the Share Option Scheme, please refer to the paragraph headed "D. Share Option Scheme" in Appendix IV to this document.

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

There is no guarantee that our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the **[REDACTED]**. Our Group cannot predict the effect, if any, of any future sales of the Shares by any of our Controlling

Shareholders, or that the availability of the Shares for sale by any of our Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

The [REDACTED] is entitled to terminate the [REDACTED]

Prospective investors should note that the **[REDACTED]** (for themselves and on behalf of other **[REDACTED]**) is entitled to terminate their obligations under the **[REDACTED]** by giving notice in writing to us upon the occurrence of any of the events set out in the paragraph headed "**[REDACTED]** — Grounds for termination" in this document at any time prior to 8:00 a.m. (Hong Kong time) on the **[REDACTED]**. Such event may include, without limitation, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism, strike or lock-out.

The interest of our Controlling Shareholders may not always coincide with the interest of our Group and those of our other Shareholders

Upon completion of the **[REDACTED]**, our Controlling Shareholders will own **[REDACTED]**% of our Shares. Our Controlling Shareholders will therefore, have a significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporation actions according to their own desires. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our Group's business to pursue strategic objectives that conflict with the interests of other Shareholders, our Group or those other Shareholders may be adversely affected as a result.

Future issues, offers or sales of Shares may adversely affect the prevailing market price of the Shares

Future issue of Shares by our Company or the disposal of Shares by any of the Shareholders or the perception that such issue or sale may occur, may negatively impact the prevailing market price of the Shares. We cannot give any assurance that such event will not occur in the future.

There can be no assurance that we will declare or distribute any dividend in the future

For each of FY2019, FY2020 and FY2021, we declared dividends of approximately RMB42.5 million, RMB39.5 million and RMB37.9 million, respectively, to our then shareholders. Out of the dividend of approximately RMB42.5 million we declared in FY2019, approximately RMB15.9 million was declared out of the profit and total comprehensive income for the year ended 31 December 2017 and approximately RMB26.6 million was declared out of the profit and total comprehensive income for FY2018.

Subject to the Companies Act and the Articles, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by our Board. Our Board may also from time to time pay to our Shareholders such interim dividends as appear to our Board to be justified by the financial conditions and the profits of our Company, and may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of our Company as it thinks fit. Any decision to pay dividends will be made having regard to factors such as the results of operation, financial condition and position, and other factors deemed relevant by our Board. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operation. There can be no assurance that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

RISKS RELATING TO THIS DOCUMENT

Statistics and industry information contained in this document may not be accurate and should not be unduly relied upon

Certain facts, statistics, and data presented in the section headed "Industry overview" and elsewhere in this document relating to the industry in which we operate have been derived, in part, from various publications and industry-related sources prepared by the Government departments or independent third parties. In addition, certain information and statistics set forth in that section have been extracted from a market research report commissioned by us and prepared by Ipsos, an independent market research agency. Our Company believes that the sources of the information are appropriate sources for such information, and the Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry related sources in this document. However, neither our Group, our Directors, the Sponsor, nor any parties involved in the **[REDACTED]** other than Ipsos in respect of the information contained in the Industry Report have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources were prepared on a comparable basis or that such information and statistics were stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications.

Our Group's future results could differ materially from those expressed or implied by the forward-looking statements

Included in this document are various forward-looking statements that are based on various assumptions. Our Group's future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed "Forward-looking statements" in this document. Investors should read this entire document carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the **[REDACTED]** including, in particular, any financial projections, valuations or other forward-looking statements.

Prior to the publication of this document, there may be press or other media which contains information referring to us and the **[REDACTED]** that is not set out in this document. We wish to emphasise to potential investors that neither we nor any of the Sponsor, the **[REDACTED]**, the **[REDACTED]** and the **[REDACTED]**, or the directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the "**Professional Parties**") involved in the **[REDACTED]** has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional

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