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

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

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. These risks and uncertainties can be broadly categorised into: (i) risks relating to our business and industry; (ii) risks relating to conducting business in the PRC; (iii) risks relating to the Global Offering; and (iv) risks relating to statements made in this prospectus.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

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

Our results of operations are significantly affected by fluctuation in the prices and availability of our major raw materials, namely PLA, PBAT and PBS. During the Track Record Period, PLA, PBAT and PBS accounted for approximately 75.0%, 76.6%, 73.4%, 72.9% and 79.2% of our total costs of raw materials in FY2019, FY2020, FY2021, 9M2021 and 9M2022, respectively. We have limited control over the supply and availability of these major raw materials. In particular, the prices and availability of our major raw materials are also sensitive to transport disruptions, government policies, general economic conditions, and many other factors that are beyond our control. According to the Frost & Sullivan Report, from 2016 to 2021, the average selling prices of PLA and PBAT increased from RMB17.6 thousand per tonne to RMB21.1 thousand per tonne, and from RMB17.1 thousand per tonne to RMB19.1 thousand per tonne, with a CAGR of 3.7% and 2.3%, respectively. For details of the trends of the average selling prices of PLA and PBAT, please refer to the subsection headed "Industry Overview — Average Selling Prices of Raw Materials (PLA, PBAT and PBS)" in this prospectus. We may not be able to fully pass on the increasing raw materials costs to our customers. As a result, our profitability and overall financial performance may be materially and adversely affected by any substantial increase in the prices of our major raw materials. For details of the impact of change in the average costs of our raw materials on our net profit, please refer to the subsection headed "Financial Information — Prices of our major raw materials" in this prospectus.

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

Furthermore, during the Track Record Period, a considerable portion of our purchases were from our major suppliers. Our purchases attributable to our five largest suppliers accounted for approximately 80.0%, 85.2%, 82.2% and 69.3% of our total purchases for FY2019, FY2020, FY2021 and 9M2022, respectively. During the same periods, purchases from our largest supplier were approximately RMB 12.1 million, RMB22.6 million, RMB35.1 million and RMB34.1 million, representing approximately 22.8%, 25.4%, 29.0% and 24.7% of our total purchases, respectively.

There is no assurance that our current suppliers may always be able to meet our demand or requirements in the future. If our suppliers no longer supply raw materials to us, or fail to deliver raw materials in accordance with our specifications, we may not be able to carry out our obligations under our production orders with our customers. As at 30 September 2022, we had 24 qualified suppliers for the raw materials which are important to our operation, there is no guarantee that we can identify additional suppliers which can fully satisfy our demand in terms of quality and quantity in a timely manner, or on commercially acceptable terms, failing which we may not be able to continue with our business operations, and our business, reputation or operating results may be materially and adversely affected.

There may be evolving consumer behaviour

We principally engage in the development and manufacturing of biodegradable plastic products in the PRC. Our Directors consider that the demand for biodegradable plastic products has been increasing in recent years with the increased awareness of environmental issues.

Consumers generally are becoming more environmentally conscious and are shifting away from non-biodegradable plastic products. Our business is therefore subject to changes in consumer behaviour. For instance, for certain consumer groups, they prefer to choose reusable shopping bags, such as canvas tote bag or mesh bags, rather than disposable shopping bags, whether they are degradable or non-degradable, for environmental protection purpose. Therefore, different consumer behaviours also affect the sales of disposable biodegradable plastic products. In the event that we are unable to respond promptly to such change, we may not be able to maintain our competitiveness, and in turn, our business, financial condition and results of operations may be hindered.

We are subject to potential threats from alternative products

For biodegradable products, there are other raw materials, such as paper, wood, bamboo and other materials that can be used to product substitute or alternative products. Besides biodegradable plastic bags, consumers may also choose to utilise alternative environmentally friendly options to replace non-biodegradable plastic bags, such as paper bags or reusable tote bags. For non-biodegradable automobile plastics parts, there are also other raw materials, such as steel, aluminium, and rubber(1), that can be used to be to substitute plastic. Although these substitutes or alternative products may have different application or functionalities due to the nature of the material, it is difficult to predict whether the consumer may choose to use these alternative products based on their preference. In the circumstances, it is essential for us to keep track of market trends and focus on collaborating with the customers in developing our plastic products to identify market trends and cater consumer preferences. In the event that we are not able to respond promptly to the change in consumer preferences, we may not be able to maintain our competitiveness, and in turn, our financial condition and results of operations may be adversely affected. Therefore, our business is subjected to the potential threats from alternative product.

We are subject to stringent environmental protection laws and regulations and we may incur substantial costs in complying with such laws and regulations and be subject to potential liability

As a policy-driven market, the development of the biodegradable plastic products market in China relies on policies and regulations that the government introduces. In recent years, the PRC government has put great emphasis on the importance of controlling plastic pollution and has formulated a comprehensive "White Pollution (白色污染)" control plan as a key reform task. On

Note:

(1) Plastic is a synthetic polymer whereas rubber is found as a natural polymer.

16 January 2020, with the approval of the NDRC and the Ministry of Ecology and Environment (生態環境部), the relevant authorities issued the "Opinions on Further Strengthening the Control of Plastic Pollution (關於進一步加強塑料污染治理的意見)", which clearly stated that by 2022, shopping malls, supermarket chains, pharmacies, bookstores, and other catering takeaway service are prohibited from using non-degradable plastic bags, and the prohibition on the use of non-degradable plastic bags will be expanded to the various marketplaces by the end of 2025.

On 10 July 2020, nine departments including the NDRC, the Ministry of Ecology and Environment (生態環境部), and the Ministry of Industry and Information Technology (工業和信息化部) jointly issued the "Notice on Solidly Promoting the Control of Plastic Pollution (《關於扎實推進塑料污染治理工作的通知》(發改環資〔2020〕1146))" to further deploy the goal and tasks to achieve the plastic pollution control plan, and to clarify the management standards for the prohibition and restriction of related plastic products.

Despite our major business segment being the development and manufacturing of biodegradable plastic products, we strictly comply with the PRC laws and regulations in our manufacturing process. We cannot guarantee that the aforesaid plastic control policy will not be further tightened to include our principal products, which may materially and adversely affect our business, financial condition and results of operations. In such event, our non-biodegradable automobile plastic parts business segment will be adversely affected.

Moreover, we are subject to various PRC environmental protection laws and regulations, including without limitation, the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》) which govern the emission, discharge, release and disposal of environmental wastes and other pollutants during our operation, as well as the Administrative Regulations on Environmental Protection for Construction Projects (《建設項目環境保護管理條例》), the Environment Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) and the Interim Measures on Environmental Protection Acceptance of Construction Projects (《建設項目竣工環境保護驗收暫行辦法》) which govern the environmental protection of our construction projects. For further details, please refer to the subsection headed "Regulatory Overview — Laws and Regulations Relating to Environmental Protection" in this prospectus.

As the PRC government and PRC regional regulatory authorities have the discretion to suspend or close any production facility failing to comply with such environmental protection laws and regulations, failure to comply with the applicable PRC environmental protection laws or regulations may result in local environmental protection authorities imposing fines or suspending our operations and may even lead to the loss of our environmental licences.

Moreover, we cannot assure you that we will be in full compliance with applicable PRC environmental laws and regulations at all times in the future. In the event that the PRC government imposes more stringent environmental protection laws and regulations, our production costs may substantially increase, or we may also be forced to suspend production or may need to incur material capital expenditures or other costs in order to remain in compliance, and we may be unable to pass on these additional costs to our customers. As such, our profitability and business performance may be materially and adversely affected as a result of any unfavourable change in the PRC laws and regulations.

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

We are exposed to risk of inventories obsolescence. Our inventory comprises raw materials, such as PLA, PBAT and PBS, and finished products. We had inventories of raw materials and finished foods of approximately RMB30.9 million, RMB31.6 million, RMB14.0 million and RMB33.6 million as at 31 December 2019, 2020, 2021 and 30 September 2022, respectively. Our average inventory turnover days were recorded at approximately 180 days, 118 days, 58 days and 51 days for the years ended 31 December 2019, 2020, 2021 and the nine months ended 30 September 2022, respectively.

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

As at 31 December 2019, 2020, 2021 and 30 September 2022, our finished goods balances amounted to approximately RMB17.9 million, RMB20.7 million, RMB7.3 million and RMB6.6 million, respectively. Therefore, any unexpected change in the economic condition or degree of economic activities of our customers may render our inventory obsolete. Such unexpected change in the demand for our products may result in over-stocked raw materials and finished goods which may lead to decline in inventory values, and significant write-offs. Furthermore, obsolescent inventories may directly impact our sales and pricing as we may be required to lower the selling price of our products to reduce the inventory level, which may lead to lower profit margin. All these factors may in turn affect our business, financial condition, and results of operations.

Our profitability may be directly affected by fluctuations in global petroleum and fuel prices and energy and utility costs

During the Track Record Period, our major raw materials involves PBAT (for our biodegradable products), and PE and PP (for our non-biodegradable products). Hence, our profitability may be affected by the price of petroleum as it has a direct impact on the costs of (i) fossil-based bioplastics including PBAT, and (ii) fossil-based conventional plastics including PE and PP. Fluctuation in petroleum prices will impact on the price of these raw materials as they are derivative products from petroleum or natural gas, and generally speaking the prices of these raw materials move in tandem with the petroleum price. Global petroleum prices have been volatile in recent years due to a variety of factors beyond our control. While the demand for our products has generally been resilient against the volatility in petroleum prices during the Track Record Period, spikes in the price of petroleum could increase the prices of our products which may reduce their demand.

The production of our products require the consumption of electricity, particularly for the machinery in our production process. High energy prices over an extended period of time, as well as changes in energy taxation and regulation, would therefore impact our profitability directly and indirectly. There is no assurance that we will be able to pass such increase in energy costs to our customers.

We have a concentration of customers during the Track Record Period and we do not enter into long-term sales framework agreements with our major customers. The loss of any one of our five largest customers could affect our revenues and have a material adverse effect on our business, financial condition and results of operations

For FY2019, FY2020, FY2021 and 9M2022, sales to our top five customers amounted to approximately RMB47.1 million, RMB93.9 million, RMB135.2 million and RMB104.1 million, representing approximately 45.8%, 56.3%, 52.7% and 48.6% of our total revenue, respectively, of which, Customer Group A, being our largest customer of FY2019, FY2021 and 9M2022 (and second largest in FY2020), accounted for approximately 15.5%, 14.6%, 16.1% and 15.1% of our total revenue for the same years/periods, respectively. Therefore, if our major customers reduces their purchase orders with us and we cannot solicit a similar amount of purchase orders from other customers on time, our business, financial condition and results of operation may be adversely affected.

Our customers generally enter into a one-year framework sales agreements with us and place orders with us for each time of purchase, rather than into long-term sales agreements with us as the selling price of our biodegradable plastic products may change along with the price of our major raw materials. As we generally do not have any long-term, legally-binding written agreements with our major customers during the Track Record Period, and they are not bound by any exclusivity terms or arrangements with us, there is no guarantee that we will be able to obtain recurring orders from our customers in a timely manner. Accordingly, we do not have contractual assurances as to our future sales. We cannot assure you that our major customers will continue to place purchase orders with us at the existing volume or pricing level or at all. As such, should there be any adverse development related to our major customers' operations or any other reasons resulting in any deterioration or termination of our business relationship with one or more of our major customers, our business, financial condition, operating results and prospects could be materially and adversely affected.

Moreover, our business depends on the profitability of the commercial, retail and food services industries, primarily in Jilin province and, to a lesser extent, the Northeast of the PRC. These industries are affected primarily by factors such as consumer demand and the operation conditions of these industries, which, in turn, are affected by the general economic condition in the PRC. Challenging economic conditions in our target markets may exert considerable pressure on consumer demand, and the resulting impact on consumer spending may have an adverse effect on demand for our products, as well as our financial condition and results of operations.

In any event, our major customers may seek to use their positions to improve their profitability through improved inventory efficiency and lower pricing. If we are unable to use our competitive strengths, marketing expertise, product development capabilities and customer recognition to respond quickly and effectively to the market trends, our profitability and sales volume may be negatively affected. To the extent we provide concessions or agreement terms that are more favourable to our major customers, our profitability may be reduced. The loss of a major customer, or a material reduction in sales to a major customer, could materially and adversely affect our product sales, financial condition, results of operations and prospects.

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

Failure to collect our trade receivables fully or timely may have material adverse effect on our business operations and financial condition. We usually grant our customers a credit period of 90 days. As at 31 December 2019, 2020, 2021 and 30 September 2022, we had trade receivables (net) of approximately RMB23.0 million, RMB28.4 million, RM73.0 million and RMB75.6 million, respectively. As a result, we may be exposed to credit risk. For FY2019, FY2020, FY2021 and 9M2022, the average trade receivables turnover days was approximately 79 days, 56 days, 72 days and 95 days, respectively. In FY2019, FY2020, FY2021 and 9M2022, our loss allowances were approximately RMB116,000, RMB144,000, RMB364,000 and RMB385,000, respectively. Our Directors confirm our management's estimation and the related assumptions have been made in accordance with the information currently available to us. However, such estimation or assumptions may need to be adjusted if new information becomes known. In the event that the actual recoverability is lower than expected, or that our past allowance for impairment of trade receivables becomes insufficient in light of the new information, we may need to make more allowance for impairment of trade receivables, which may in turn materially and adversely affect our business, financial condition, and results of operations.

As at 31 December 2019, 2020, 2021 and 30 September 2022, we had a concentration of credit risk as approximately 16.7%, 17.7%, 15.7% and 17.7% of the total trade receivables was due from our largest trade debtor, respectively, and approximately 52.8%, 54.6%, 56.6% and 49.0% of the total trade receivables was due from our Group's five largest trade debtors, respectively. During the Track Record Period, all of our largest customers are independent third parties. Our customers may experience financial difficulties, which could negatively impact our ability to collect the amount due to us. Such adverse financial condition may negatively affect the length of time that it will take us to collect the associated trade receivables or impact the likelihood of ultimate collection, which could result in an adverse effect on our business, financial condition, and results of operations.

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

We may not be able to compete with domestic and international biodegradable plastic products manufacturers in the future

According to the Frost & Sullivan Report, the biodegradable plastic products market in the PRC was rather fragmented, with approximately 1,200 market participants as at 31 December 2021. Compared with international plastic manufacturers, the production technology level of biodegradable plastic products in China is still comparatively backward. Accordingly, in addition to domestic competitors, we may also face competition from international competitors. We compete with our competitors primarily on the basis of product quality, consistency, functions of the products, selling price, ability to develop new products, production capacity, timeliness of delivery. While some of our competitors have better production experience, R&D capabilities, customer recognition, marketing and distribution channels than us, some might be located in Southeast Asia region which could produce similar products with a lower cost than us. Accordingly, there is no guarantee that we can compete with them effectively despite our efforts in business expansion and R&D.

Our capability to introduce new and/or enhanced products depends on, amongst others, our R&D results (in collaboration with CIAC) which involve various risks and may not yield the commercial benefits to the extent we expect, or at all. To the extent that we are not able to develop quality products that satisfy our customers' demand as timely as our competitors, our operating results may be materially and adversely affected.

Moreover, many our competitors may reduce their selling prices in order to obtain market shares. If our competitors engage in active price reductions, we may be forced to reduce our selling prices to remain competitive which may negatively affect our revenue and profitability. We expect that we will face continuous competition from existing domestic and international competitors as well as new market entrants. There can be no assurance that our products will be able to compete successfully, in which case our business, financial condition and results of operations may be materially adversely affected.

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

Our assets and operations are located in the PRC and our revenue was generated from the PRC during the Track Record Period. Accordingly, our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God, which are beyond our control, may adversely affect the economy, infrastructure and livelihood of people in the PRC. People in the PRC may be under threats of flood, earthquake, thunderstorm, sandstorm, snowstorm, fire, drought or epidemics such as COVID-19, Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, H7N9 avian flu or H1N1 human swine flu.

In earlier 2020, there was an outbreak of COVID-19 across the world, and as at the Latest Practicable Date, COVID-19 continues to be declared a pandemic by the World Health Organisation, and the original form and more recent variants continue to impact, at varying levels, many geographies worldwide. Actions taken to mitigate COVID-19, including travel restrictions, quarantines and business closures, have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including China. While vaccine is being deployed and restrictions in some regions are being lessened, if infection and hospitalisation rates increase, some of these lessened restrictions may be reversed. Our business could be impacted by the current pandemic or future continuance or reoccurrence of COVID-19 in certain ways, including but not limited to delay or interruption to our business operation, delay or interruption of the supply of raw materials, cost increases in our raw materials and logistics as well as temporary closure or flexible working hours of our operation and our business partners, which may cause us to incur additional costs and affect our ability to carry out our operations as planned.

The full effects of the COVID-19 pandemic or further transmission on our business or our industry will depend on a number of factors outside our control, including the extent to which the current pandemic continues to spread, as well as the impact of the COVID-19 pandemic on our employees and the personnel that are necessary to continue our business operation. Therefore, to prevent the transmission of COVID-19 to and among our employees, we have to implement additional preventive measures (such as mandatory wearing of masks during working hours, regular body temperature check and social distancing), which may lead to low working morale, decrease productivity and engagement.

Moreover, in or around March 2022, the transmission of COVID-19 in Jilin province has impacted us in various ways. For instance, we encountered decline in demand as some of our customers were ordered to operate with restricted opening hours or to shut down temporarily. As a result, our business operation from March 2022 to April 2022 has been negatively affected, causing in a fall in revenue for our biodegradable plastic products. In quantitative terms, the total aggregate revenue of March 2022 and April 2022 was approximately equal to average monthly revenue of January, February and May 2022. During the period of March–May 2022, due to the lockdown of Changchun, we were temporarily able to increase the selling price of our main biodegradable plastic products as our customers were willing to pay a higher price to secure supply. However, such increase in the selling price of biodegradable products may not be sustainable in the long run.

Furthermore, travel and transportation restrictions also increased our suppliers' difficulties to deliver their products to us, as well as for us to deliver our products to our customers. Due to the travel and transportation restrictions, we had to rely more on third parties logistics service providers to deliver our products.

In any event, we cannot predict when the COVID-19 transmission will become completely under control and we cannot guarantee that the COVID-19 transmission will not worsen. Having considered that the past occurrences of epidemics, the COVID-19 depending on their scale, have caused different degrees of impact to the national and local economies in China. The COVID-19 outbreak and any other public health crisis in China especially in the cities where we have presence, may result in material disruptions to our operations, which in turn may materially and adversely affect our financial condition and results of operations. Moreover, the increase in the selling price of biodegradable plastic products in 9M2022 may not be sustainable in the long run. Further details regarding the tightened prevention and "closed-loop management" measures we have adopted at our production base, please refer to the section headed "Summary — Recent Developments" in this prospectus.

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

To support our growing operations and to cater for our customers' demand, we intend to further expand our existing production facilities by (i) expanding our existing biodegradable plastic products production lines at our Changchun Production Base; (ii) establishing new biodegradable plastic products production lines to produce new biodegradable plastic products at our Changchun Production Base; and (iii) building and establishing a new production base at Huizhou, Guangdong province, the PRC, for the production of biodegradable plastic products.

Upon completion of our expansion plan, our total annual designed production capacity at our Changchun Production Base for (i) existing biodegradable masterbatches is expected to increase from approximately 11,844 thousand kilogrammes to 45,892 thousand kilogrammes; and (ii) new biodegradable plastic products (excluding biodegradable masterbatches) from approximately 6,440 thousand kilogrammes to 28,840 thousand kilogrammes. Meanwhile, the total annual designed production capacity (excluding biodegradable masterbatches) at our Huizhou Production Base for biodegradable plastic products is expected to be approximately 17,528 thousand kilogrammes.

The total capital expenditure of our expansion plan (including both Changchun Production Base and Huizhou Production Base) is expected to be approximately RMB159.1 million(1), of which approximately RMB1.1 million is expected to be settled by our Group by internal resources in 2022 and the first half of 2023. We intend to settle the remaining balance of approximately RMB108.9 million of such capital expenditure by applying part of the net proceeds from the Global Offering (representing approximately 66.5% of the total net proceeds from the Global Offering). We target to commence trial production for our new production lines at our Changchun Production Base and Huizhou Production Base by the first quarter of 2023 and the fourth quarter of 2023, respectively. We target to complete our expansion of our Changchun Production Base and Huizhou Production Base by the second quarter of 2024 and the first quarter of 2024, respectively. As at the Latest Practicable Date, we are in the course of finalising our expansion plan.

Note:

(1) RMB159.1 million is comprised of RMB83.3 million and RMB75.8 million. We intend to use RMB83.3 million to expand our operation in our Changchun Production Base, of which RMB1.1 million is expected to be settled by our Group by internal resources in 2022 and the first half of 2023, RMB54.5 million is expected to be settled by our net proceeds, and RMB27.7 million is expected to be settled by our Group's internal resources upon Listing. Moreover, we intend to use RMB75.8 million to establish a new production base in Huizhou, Guangdong province, RMB54.4 million is expected to be settled by our net proceeds, and RMB21.4 million is expected to be settled by our Group's internal resources upon Listing.

Our expansion plan may involve the following risks: (i) our production volume may vary depending on the demand for our products which in turn may be affected by market trends, customers' preferences or other factors which are beyond our control; (ii) the demand for our products, the average selling price of our products and revenue to be generated may not increase in line with our increase in production capacity; (iii) the increase in our fixed costs, such as depreciation costs, in connection with capital investments relating to the expansion of our production facilities, which will be charged to our Group's income statement each year; (iv) the increase in other variable costs incurred in relation to the expansion will be accounted for based on the production volume; (v) we cannot guarantee our expansion plan will be successfully implemented without delay or at all; and (vi) we may not be able to obtain the necessary licences from the PRC regulatory authorities for our expansion plan.

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

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

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

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

Any failure to protect our intellectual property rights could harm our business and competitive position

One of our competitive edges is the material formulae of our biodegradable masterbatches for our biodegradable plastic products and our knowhow to manufacture reliable, quality and consistent biodegradable plastic products. Related utility model patents, invention patents, trademarks, trade secrets or know-how in our products, production process and technics of commercial production are important to our Group's business and competitive position. Throughout our business development history, we have developed and maintained a number of patents and trademarks for our business. As at the Latest Practicable Date, we held 29 utility model patents, two invention patents, and three registered trademarks in the PRC. We were also in the process of application of one patent. Further information is set forth in the subsection headed "Statutory and General Information — C. Further information about our business — 2. Intellectual property rights of our Group" in Appendix V to this prospectus.

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

Other than by way of registration, we also enter into proprietary and confidentiality agreements with our key R&D employees to protect our intellectual property rights. However, monitoring unauthorised use of proprietary rights is difficult and expensive, and we may need to commence litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. The experience and capabilities of the PRC courts in handling intellectual property litigation vary, and the outcomes are also unpredictable. In the event of any such litigation or an adverse outcome in any such litigation, it could result in substantial costs and diversion of resources and management attention, which could harm our business, reputation and competitive position.

We also rely on unpatented proprietary know-how, continuing technological innovation and other trade secrets to develop and maintain our competitive position. While it is our policy to enter into proprietary and confidentiality agreement with our key R&D employees to protect our intellectual properties, we cannot assure you that such agreement will not be breached, or will be able to offer us meaningful protection or that adequate remedies will be available in the event of unauthorised uses or disclosures of our trade secrets and know-how. In addition, we cannot assure you that other competitors in the market will not obtain knowledge of these trade secrets or know-how through independent development.

We may be subject to claims of infringement of third-party intellectual property rights

We seek to develop and implement new technologies and production processes to keep in pace with the market development. In doing so, we may not be aware of other third-party intellectual property rights, and accordingly, we may be unable to assess the scope and validity of those third-party intellectual property rights. In addition, product development is inherently uncertain in a rapidly evolving technology environment where there may be numerous patent applications pending, many of which are confidential when filed with regard to similar technologies. There may also be uncertainty regarding the rightful ownership of newly developed patents or technology. Accordingly, we may be subject to lawsuits for infringement on intellectual property rights. Intellectual property litigation may adversely affect our application of the relevant intellectual property rights over the challenged technology, and we may need to pay substantial damages or royalties of licenced proprietary rights if we are found liable for the alleged infringement. Given that technological development takes up an important role in the biodegradable plastic products industry, we cannot assure you that our current measures in relation to intellectual property rights protection are adequate and that we will not be subject to claims of intellectual property rights infringement by third parties. Any intellectual property litigation may cause us reputational damage and incur significant expenses and divert our management's attention and efforts, any of which may have an adverse effect on our business, financial condition, results of operations or prospects.

We are subject to certain risks relating to the delivery of our raw materials and products including delays caused by suspension or interruption to the services of our third-party logistics service providers, and increase in delivery costs

During the Track Record Period, we sourced our raw materials from our qualified suppliers in the PRC. In general, our suppliers arrange delivery of our raw materials to our production facilities by fleet transportation and are responsible for the related transportation costs. In respect of our products, we utilise our own logistic crew and/or engage third-party logistics service providers to deliver our products to our customers by fleet transportation depending on distance. For details of our Group's logistics arrangement, please refer to the subsection headed "Business — Our Sales and Customers — Delivery and Logistics" in this prospectus. Fleet transportation are subject to inherent risks such as accidents, property losses or damages, fire, collisions, as well as interruptions caused by mechanical failure, adverse traffic conditions and/or extreme weather conditions. If any of these events occur, we cannot assure that we will be able to obtain raw materials in a timely manner to carry out our production plan, or that we will be able to deliver our products to our customers according to the delivery schedules. In the event that the transportation services for our raw materials or products are suspended or interrupted and we cannot obtain alternative transportation methods for the delivery of our raw materials or products in a timely manner, our business operation, reputation and our profitability may be materially and adversely affected.

For FY2019, FY2020, FY2021, 9M2021 and 9M2022, our logistic service fee amounted to approximately RMB0.4 million, RMB0.5 million, RMB0.7 million, RMB0.5 million and RMB1.8 million, respectively, representing approximately 39.1%, 50.3%, 52.8%, 55.1% and 50.2%, respectively, of our total selling and distribution expenses for the corresponding years/periods. There is no assurance that our logistic service fees will remain stable or that it will not increase in future. In the event that there is an increase in logistic service fee, and we cannot locate alternative logistics service providers at reasonable prices, logistic service fee will increase which may lead to a reduction of our net profits. Accordingly, our financial condition and results of operation could be materially and adversely affected.

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

During the Track Record Period, we principally developed and manufactured biodegradable plastic products in the PRC. As the biodegradable plastic products industry is a newly developed industry (less than 10 years) in China, we lack references and precedents for our future R&D and may encounter situations such as a prolonged development cycle and high initial investment costs. From R&D to commercialisation of the final products, we also face risks such as failure in breaking through key production difficulties, impracticability in fine tuning for standardised production etc.

Alongside the technological advancement, our customers may demand for products with better qualities. We consider our product development and quality consistency of our products as one of our key competitive edges and have established a R&D department to drive relevant study. Nonetheless, our expectation on the upcoming market trend may not be accurate, or we may fail to maintain the quality consistency of our products that satisfy customers' needs.

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

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

Our reliance on the cooperation with CIAC

During the Track Record Period, we cooperated with CIAC (中國科學院長春應用化學研究所), a third-party research institute. If CIAC fails to provide reliable research services, our business and reputation may be adversely affected. We rely on the cooperation with CIAC for conducting R&D on our biodegradable plastic products. Our R&D department typically liaise with CIAC to conduct research on these technology and direction after conducting preliminary research on the way to improve our biodegradable plastic products. Our R&D department would monitor the research progress, review the R&D results, and provide feedback to CIAC from time to time.

If CIAC discontinues cooperation with us or fails to comply with the applicable rules and regulations regarding research in the PRC, the development or production of our products may be materially and adversely affected. If any of our R&D initiatives is disrupted or terminated, we may not be able to find alternative qualified research institute and on commercial terms to our satisfaction in a timely and reliable manner, or at all. Our products may also be compromised, customer experience may be impaired and, as a result, our business and reputation could suffer. Further, if CIAC raises their fee rate, we may incur additional costs and may not be able to pass such costs to our customers.

Dividends declared in the past may not be indicative of our dividend policy in the future

Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future. During the Track Record Period, we declared dividends of nil, nil, RMB137.0 million and nil for FY2019, FY2020, FY2021 and 9M2022, respectively. The payment of these dividends was financed by our internal resources and fully paid in FY2021. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. The declaration of dividend is proposed by our Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. As a result, there is no reference to the basis for forecasting the amount of dividend payable in future in this prospectus.

Moreover, we may not have sufficient profits or cash flow to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. In any event, the past distribution record should not be used as a reference of the amount of dividends payable in the future.

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

During the Track Record Period, we did not make sufficient contributions to the social security insurance fund and the housing provident fund for certain employees. As at 31 December, 2019, 2020 and 2021 and 30 September 2022, we made provisions of social security insurance fund and housing provident fund amounted to approximately RMB1.8 million, RMB1.8 million, RMB2.3 million and RMB2.3 million, respectively. As advised by our PRC Legal Advisers, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of social security insurance contributions as required, we may be ordered to pay the outstanding social security insurance contributions within a prescribed time limit and may be subject to an overdue fine of 0.05% of the outstanding payment per day from the date on which the payment was due. If such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of the outstanding payment. If we fail to pay the full amount of housing provident fund as required, the competent housing provident fund management centre may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

In addition, we cannot guarantee that we will not be required to pay any contribution shortfall retrospectively or penalties, thereby adversely affecting our financial condition and results of operations. For further details, please refer to the subsection headed “Business — Employees — Social Security and Housing Provident Funds” in this prospectus.

Any discontinuation, reduction or delay of any preferential tax treatment or government grants available to us could materially and adversely affect our business, financial condition and results of operations

We have been benefited from preferential tax treatment from the PRC government policy. One of our Group's PRC operating subsidiaries, namely Jilin Kaishun, was recognised as a High and New Technology Enterprise (高新技術企業) since 2018 and such status was renewed in September 2021. Accordingly, Jilin Kaishun is entitled to a preferential income tax rate of 15% instead of the enterprise income tax paid at the rate of 25%. Hence, for FY2019, FY2020, FY2021, 9M2021 and 9M2022, our effective income tax rate, calculated by dividing income tax expenses by profit before income tax expenses, was approximately 14.0%, 13.7%, 14.7%, 14.7% and 17.1%, respectively. Our effective tax rate for 9M2022 was higher than the preferential tax rate mainly due to Listing expenses were not tax deductible items.

The qualification as a High and New Technology Enterprise is subject to a three-year review by the PRC government. In order to apply for or maintain such qualifications and the preferential tax rates, we are required to submit an application to the accreditation body consisting of the Department of Science and Technology of Jilin Province (吉林省科學技術廳), the Jilin Province Department of Finance (吉林省財政廳), and the Jilin Provincial Taxation Bureau of SAT (國家稅務總局吉林省稅務局) for the recognition of a High and New Technology Enterprise. The policies regarding the preferential tax treatment are subject to change and termination. The government agencies may decide to reduce, eliminate or cancel our preferential tax treatment at any time. The current High and New Technology Enterprise Certificate granted to Jilin Kaishun will be expired in September 2024. We cannot assure you of the continued availability of such preferential tax treatment which we currently enjoy or that our other subsidiary may apply for such preferential tax treatment successfully. The discontinuation, reduction or delay of the preferential tax treatment could adversely affect our financial condition and results of operations.

Our total government grants received amounted to approximately RMB1.1 million, RMB0.9 million, RMB1.0 million, RMB0.7 million and RMB0.4 million, respectively, for FY2019, FY2020, FY2021, 9M2021 and 9M2022. Please refer to the subsection headed "Financial Information — Combined Statements of Profit or Loss and Other Comprehensive Income — Other Income" in this prospectus for further details. As these government grants are generally provided on a one-off basis, there is no guarantee that we will continue receiving them in the future. If we cannot successfully apply for the government grants in the future, it could have an adverse effect on our financial condition, results of operations, cash flows and prospects.

We may be involved in litigation or legal proceedings

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

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

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

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

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

In particular, we rely on the expertise and experience of Ms. Zhang, our chair of the Board, and executive Director, and Mr. Shan, our chief executive officer and executive Director who each have around 10 years of experience in the materials industry in the PRC, for our business management and operation. If one or more of our Directors or senior management or other key personnel are unable or unwilling to continue to serve in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted, and our results of operations may be materially and adversely affected. In addition, if any member of our senior management or other key personnel joins a competitor or forms a competing business, we may lose business secrets and know-how. Any failure to attract, retain, and motivate these key personnel may materially and adversely harm our reputation and business.

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

Labour shortages or increases in labour costs could harm our business, reduce our profitability and slow our growth

Experienced professional staff members and other labour are important for the operation of our businesses, and therefore, our success depends in part on our ability to attract, retain and motivate a sufficient number of these staff members for our production work and operations. Our Directors consider that qualified individuals in the biodegradable plastic products manufacturing industry in the PRC are in short supply and competition for workers is intense. The labour in biodegradable plastic products manufacturing industry have to master the raw material knowledge and production knowhow to maintain competitiveness, which requires ongoing and repeated trainings and accumulation of experiences. Also, there are requirements of equipment maintenance and operation safety during the production process of raw material to avoid potential safety issues and satisfy the requirements of environmental protection at the same time. We therefore must appoint experienced workers to handle these maintenances and operations. In addition, competition for qualified individuals or workers could also require us to pay higher wages, which could result in higher labour costs. Labour cost in the PRC has been on a rising trend over the years, and it may rise further in the future. We may not be able to fully transfer the increased cost of labour to our customers through raising the prices of our products. In the event that we are unable to cope with the increasing labour cost, our business, financial performance and results of operations may be adversely affected. Our agreements with our customers do not contain specific labour cost adjustment mechanism, and we may fail to anticipate or may be unable to transfer the full impact of the increase in labour cost to our customers on a timely basis, or at all. In such cases, our business and results of operations may be adversely affected.

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

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

Our insurance coverage may be insufficient to protect our Group

During the Track Record Period, in addition to the mandatory social security insurances we maintained for our employees, we have maintained general insurance for our fixed assets (production facilities equipment and machineries), and raw materials and finished goods and employees. For details of our insurance policies, please refer to the subsection headed "Business — Insurance" in this prospectus. However, we do not maintain product liability insurance. If there is any damage caused by defective products, we are exposed to potential product liability claims. A successful product liability claim against us could require us to pay for substantial damages, and we will not have insurance to cover any amount of such damages or liabilities. Product liability claims against us, whether or not successful, are costly and time-consuming to defend and could divert significant resources and management attention. In the event that our products prove to be defective, we cannot assure you that a product liability claim will not be brought against us in the future. As a result, our business, results of operations and reputation could be materially and adversely affected by any product defects.

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

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in political and economic policies of the PRC government could have an adverse effect on the overall economic growth of the PRC, which could increase our manufacturing costs and adversely affect our competitive position

During the Track Record Period, all of our productions and assets were located in the PRC and all of our revenue was derived from the PRC market. Accordingly, our business, financial condition, operating results and prospects are affected significantly by economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing and the allocation of resources.

While the PRC economy has grown significantly in the past decades, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and operating results may be materially and adversely affected by government control over capital investments or changes in tax regulations that may be applicable to us. Such measures may also be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. Hence, we cannot assure you that we may benefit from all, or any, of the measures which are under constant adjustments.

The PRC economy has been transitioning from a planned economy to a socialist market oriented economy. However, the PRC government still exercises significant control over the economic growth of the PRC through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatment to particular industries or companies. Furthermore, as the PRC economy has become increasingly linked with the global economy, the PRC is affected in various respects by downturns and recessions of major economies as well as natural disasters around the world which are beyond our control. Any adverse change in the economic conditions in the PRC, the policies of the PRC government or the laws and regulations in the PRC, could have an adverse effect on the overall economic growth of the PRC and market demand for our products and our competitive position.

In addition, there can be no assurance that the PRC government will continue to pursue its current economic reform policies. Our operations and financial results could be materially and adversely affected by changes in political, economic and social conditions or relevant government policies, such as changes in laws and regulations or the interpretations thereof, measures which might be introduced to control inflation, changes in the rate or method of taxation and imposition of additional restrictions on currency conversion.

Our business operations are subject to uncertainties with respect to the laws and regulations of the PRC

Our business and operations in the PRC are governed by the laws of the PRC. The PRC law is a codified system which comprises of statutory laws, regulations, circulars, administrative directives and internal guidelines. Some of them, and the interpretation, implementation and enforcement thereof, are still at the experimental stage and are therefore subject to policy changes. In the event that our PRC subsidiary breaches any of the foregoing, whether by omission or not, we will be subject to penalties prescribed therein. Owing to the fact that the legal system and economic system are growing at different paces, some degree of uncertainty exists in connection as to whether and how existing laws and regulations are applicable to certain circumstances. Moreover, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are of limited value for decisions, as the higher court decisions in the PRC do not necessarily have a binding effect on lower courts. Accordingly, the outcome of dispute resolution may not be as consistent or predictable as in other jurisdictions.

In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied. 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 PRC administrative and court authorities have discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners and customers.

Such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of PRC law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in the more developed countries. 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 pre-emption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention.

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

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

Payment of dividends is subject to restrictions under the PRC law

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

Foreign exchange control by the PRC government may have a material adverse effect on your investment

We receive our revenue in RMB during the Track Record Period. RMB generally cannot be freely converted into any foreign currencies. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE subject to certain procedures. Hence, our PRC subsidiaries are able to pay dividends in foreign currencies to our Company without prior approval from the SAFE by satisfying certain procedural requirements. However, there is no assurance that the foreign exchange policies regarding the payment of dividends in foreign currencies will continue.

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

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

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

Our dividend income from our foreign-invested PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate

Under the EIT Law and its implementation rules, dividend payments from PRC subsidiaries to their foreign shareholders, if the foreign shareholder is not deemed as a PRC tax resident enterprise under the EIT Law, are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC. If certain conditions and requirements under the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排(國稅函[2006]第884號)》), or the "China-Hong Kong Tax Arrangement" are met, the withholding rate could be reduced to 5%. However, the Announcement of the State Administration of Taxation on Issues Relating to "Beneficial Owner" in Tax Treaties (《國家稅務總局關於稅收協定中"受益所有人"有關問題的公告》) or the "Notice 9" provides that "Beneficial Owners" refer to persons who engaged in substantial business operations. It is unclear whether Notice 9 applies to dividends from our PRC operating subsidiaries paid to us through our direct subsidiary incorporated in Hong Kong which holds our PRC entities. If, under Notice 9, such Hong Kong subsidiary was not considered the "beneficial owner" of any such dividends, such dividends would, as a result, be subject to income tax withholding at the rate of 10% rather than the more favourable 5% rate applicable under the China-Hong Kong Tax Arrangement. In that case, our financial condition and results of operations may be materially and adversely affected.

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

The EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in the PRC are considered "resident enterprises" for tax purposes and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. "De facto management bodies" is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. However, there have been no official implementation rules regarding the determination of the non "de facto management body" in the PRC for foreign enterprises. Therefore, it remains unclear how PRC tax authorities will treat a case like ours. If the PRC tax authorities determine that we are a "resident enterprise", we may be subject to enterprise income tax at a rate of 25% on our worldwide income, which will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations.

Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under the PRC tax laws

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

Under PRC Individual Income Tax Law and its implementation rules, dividends from "sources within the PRC" paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realised by such investors on the transfer of shares are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

If we are treated as a PRC resident enterprise as described under the risk factor headed "— We may be classified as a "resident enterprise" for PRC enterprise income tax purposes, which could result in unfavourable tax consequences to us" in this section, dividends we pay with respect to our Shares, or the gain realised from the transfer of our Shares, may be treated as income derived from "sources within the PRC" and as a result be subject to the PRC income taxes described above. However, shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties may claim tax treaty benefits on their own when filing a tax return by themselves or making a withholding declaration through a withholding agent pursuant to the Administrative Measures for Non-resident Taxpayers to Enjoy Treatment under Treaties (《非居民納稅人享受協定待遇管理辦法》), which was promulgated by the SAT on 14 October 2019 and came into effect on 1 January 2020. With respect to dividends, the Notice 9 will also apply. If determined to be ineligible for the foregoing tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would subject to higher PRC tax rates. In such cases, the value of our foreign investors in our Shares may be materially and adversely affected.

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

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

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

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

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

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

According to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**Circular 37**"), PRC residents (including PRC citizens and PRC enterprises) shall apply to the SAFE or its local bureau to register foreign exchange for overseas investments before contributing to special purpose vehicles (the "**SPVs**") with legitimate domestic and overseas assets or rights and interests. In the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC citizen shareholder, name and operating duration; or in the event of any alternation in key information, such as increases or decreases in the share capital held by PRC citizens, or equity transfers, swaps, consolidations, or splits, the registered PRC residents shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus.

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

RISKS RELATING TO THE GLOBAL OFFERING

Possible setting of the Offer Price after making a Downward Offer Price Adjustment

We have the flexibility to make a Downward Offer Price Adjustment to set the final Offer Price at up to 10% below the bottom end of the indicative Offer Price range per Offer Share. It is therefore possible that the final Offer Price will be set at HK$0.945 per Offer Share upon the making of a full Downward Offer Price Adjustment. In such a situation, the Global Offering will proceed and the Withdrawal Mechanism will not apply. If the final Offer Price is set at HK$0.945, the estimated net proceeds we will receive from the Global Offering will be reduced to HK$135.5 million and we will adjust the use of proceeds as described in the paragraph headed "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus.

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

Prior to the Listing, there has been no public market for the Shares. The listing of, and the permission to deal with, the Shares on the Stock Exchange do not guarantee an active trading market following completion of the Global Offering. The determination of the indicative Offer Price range stated in this prospectus was the negotiation result between the Overall Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder). As such, the Offer Price may not be an indicative trading price of the Shares on the Stock Exchange. Future sales of a substantial number of the Shares by our Group or its existing Shareholders after the Global Offering could adversely affect the prevailing market price of the Shares from time to time.

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

- fluctuations in our operating results, such as revenue, earnings and cash flows;
- fluctuations in market prices for products of our Group or any of our Group's comparable companies;
- changes in pricing policy adopted by us and our competitors;
- investors' perception of our Group and our business plans;
- announcements of new investments, strategic alliances by our Group;
- changes in our senior management personnel; and
- general economic factors in the PRC.

In such cases, investors may not be able to sell their Shares at or above the Offer Price.

Investors for our Shares will experience immediate dilution

Investors for our Shares will experience immediate dilution if the Offer Price is higher than the net tangible asset value per Share. Hence, investors of our Offer Shares will experience an immediate dilution in the unaudited pro forma adjusted net tangible asset value to HK$0.38 and HK$0.43 per Share based on the Offer Price at HK$1.05 and HK$1.35 per Offer Share respectively.

Investors may experience dilution in the future if we issue additional Shares

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

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

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

Immediately following the Capitalisation Issue and the Global Offering, without taking into account the exercise of the Over-allotment Option, our Controlling Shareholders will beneficially own 67.7689% of the Shares. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders choose to cause us to pursue strategic objectives that conflict with the interests of our other Shareholders, those Shareholders may be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

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

Any disposal of a substantial number of Shares by our Controlling Shareholders 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 Listing. Our Group is unable to predict the impacts, if any, of any future sales of the Shares by any of our Controlling Shareholders, 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.

Possible termination of the Underwriting Agreements

Prospective investors of the Global Offering should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreements by notice in writing to our Company from the Overall Coordinator (for itself and on behalf of the Underwriters) upon the occurrence of any of the events stated in the relevant underwriting agreements. Such events include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, fire, flood, tsunami, explosions, epidemic, pandemic, acts of terrorism, earthquakes, strikes or lock-outs.

The laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or other jurisdictions

Our corporate affairs are governed by the Memorandum, the Articles, and by the Companies Act and common law of Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. The remedies available to our Group's minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the subsection headed "Summary of the Constitution of Our Company and Cayman Companies Act" in Appendix IV to this prospectus for further information.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

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

Certain facts and statistics presented in the section headed "Industry Overview" and elsewhere in this prospectus are derived from the Frost & Sullivan Report and other publicly available sources. We believe that the sources of these information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, the information has not been independently verified by us, the Selling Shareholder, the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or their respective directors, affiliates or advisers or any other party involved in the Global Offering and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.

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

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

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

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

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

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

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