
RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. The following is a description of what we consider to be our material risks. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our H Shares could decline, and you may lose all or part of your investment. These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof and is subject to the cautionary statements in the section headed “Forward-Looking Statements” in this prospectus.

RISKS RELATING TO OUR INDUSTRY AND BUSINESS

We face significant competition in the industry in which we operate, and if we are unable to compete effectively, our results of operations and financial condition may be materially and adversely affected.

The LED intelligent vision industry is intense and highly competitive with over 300 thousand market participants. China has the world’s largest LED intelligent vision industry, with a market size of RMB440.2 billion in 2023 in terms of revenue. Based on applications, LED intelligent vision can be categorized into intelligent automotive vision, high-end lighting and advanced display. In terms of revenue in 2023, the top five manufacturers took up an aggregated market share of 49.2%, 39.3% and 66.6%, respectively, in China’s intelligent automotive vision market, high-end lighting market and LCD TV backlight display market, respectively. See “Industry Overview.” Many of our competitors provide products comparable to those we offer and may further upgrade their products and optimize their services. Our competitors may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases or greater financial, technological or marketing resources than we do. As a result, our competitors may be able to respond more quickly and effectively to new or changing opportunities, technologies, standards or customer requirements than us and may have the ability to initiate or withstand significant industry evolution or regulatory changes. Our competitors may have more advanced facilities or equipment, develop more advanced or efficient technologies, acquire more customers, have more professional staff or offer more competitive prices.

If we are unable to stay competitive or compete successfully with our competitors, we may experience decreases in market share and sales volume, and may have to reduce our prices or make other concessions, thereby adversely affecting our profitability, business, financial condition and results of operations.

RISK FACTORS

We are exposed to customer concentration risk.

Revenue from our five largest customers in each period of the Track Record Period amounted to RMB997.6 million, RMB1,033.7 million, RMB1,366.6 million and RMB649.8 million, respectively, accounting for 71.8%, 73.2%, 73.5% and 77.1% of our total revenue, respectively. Revenue from our largest customer in each period of the Track Record Period amounted to RMB423.6 million, RMB350.1 million, RMB705.8 million and RMB326.7 million, respectively, accounting for 30.5%, 24.8%, 38.0% and 38.8% of our total revenue, respectively. See “Business — Sales and Marketing — Our Customers.” During the Track Record Period, a majority of the sales of our intelligent automotive vision products were attributable to Geely Related Group. In 2021, 2022, 2023 and the five months ended May 31, 2024, revenue from Geely Related Group was RMB50.6 million, RMB350.1 million, RMB705.8 million and RMB326.7 million, respectively, accounting for 3.6%, 24.8%, 38.0% and 38.8% of our total revenue, respectively, for the same periods. We expect that revenue from Geely Related Group will continue to increase in the near future. Our major customers’ stable relationship with us and consistent demands are crucial to our business. Their business conditions, liquidity and solvency may have a significant impact on our business dealings. Any disruption in our business relationship with major customers could have a material adverse effect on our business, financial condition and results of operations. In the event that the existing major customers reduce or cease to purchase our products and we are unable to find new customers with similar level of demands at comparable terms within a reasonable period of time or at all, our business and profitability may be adversely affected.

Demand for our LED products depends on trends and developments in their corresponding end products and end markets.

We offer a broad portfolio of LED products to be used for a wide range of end products or targets, such as automotives and consumer electronics. As such, demand for our products depends to a large extent on trends and developments in the markets for end products. If the end product markets cannot maintain robust growth, our business and profitability may be adversely affected.

Furthermore, the end markets of our products are characterized and defined by rapidly changing technology, frequent new product specifications and changing customer demands. Our success thus depends on the ability to adequately respond and adapt to technological developments in a timely and cost-effective manner, through continual improvement of our products and services. Our failure to adapt to such changes may have a material adverse effect on our business, operating results and financial condition.

RISK FACTORS

Any adjustment in our business mix may result in fluctuations in our profitability, which may adversely and materially affect our financial condition and results of operations.

Our results of operations are affected by changes in our business mix. During the Track Record Period, we expanded into high-tech, high-profit margin and high-growth potential products in high-end lighting and advanced display businesses, such as horticultural lighting products and intelligent local dimming products, to capture a broader range of market opportunities, enhance the diversity of our product offerings and improve our profitability. In 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, the gross profit margin of our high-end lighting business was 19.6%, 19.2%, 23.4%, 22.6% and 24.8%, respectively, and the gross profit margin of our advanced display business was 9.6%, 10.7%, 16.4%, 16.4% and 15.7%, respectively.

In 2021, we tapped into intelligent automotive vision and have quickly ramped up our product offerings since then. Our revenue from intelligent automotive vision products significantly increased over the Track Record Period, representing 5.3%, 28.3%, 41.5%, 36.1% and 43.4% of our total revenue in 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, respectively. We recorded a gross loss margin of 1.1% in 2021 and a gross profit margin of 17.5%, 14.9%, 10.2% and 15.3% in intelligent automotive vision in 2022, 2023 and the five months ended May 31, 2023 and 2024, respectively. In contrast, the revenue contribution from high-end lighting decreased over the Track Record Period, representing 74.5%, 47.5%, 35.0%, 40.6% and 30.1% of our total revenue in 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, respectively.

Any adjustment in business mix may result in fluctuations in our profitability. We cannot guarantee that our business adjustments will be consistently successful, and that we will continue to sustain our gross profit margins and profitability levels in the future. Any failure in the adjustments of our business mix may have an adverse and material effect on our revenue, financial condition or results of operations.

We rely on the stability of our supply chain as well as a number of key suppliers, the loss of which could adversely affect our business.

Our purchase primarily encompasses procurement of raw materials and consumables, property, plant and equipment, as well as services. Purchase amount from our five largest suppliers in each period of the Track Record Period accounted for 43.0%, 26.2%, 22.1% and 21.6% of our total purchase amount, respectively. Purchase amount from our largest supplier in each period of the Track Record Period accounted for 25.9%, 12.8%, 9.3% and 7.5% of our total purchase amount, respectively. We cannot assure you that there will not be any dispute between our major suppliers and us, or that we will be able to maintain stable business relationships with our existing suppliers.

RISK FACTORS

If all or a significant number of our suppliers for any particular raw materials and consumables are unable or unwilling to meet our requirements for quantity, quality or timing, we could suffer supply shortages or procurement cost increases. Our suppliers could fail to meet our needs for various reasons beyond our control, including fires, natural disasters, extreme weather, manufacturing problems, epidemic, strikes, transportation interruptions or governmental regulation. A failure of supply could also occur due to suppliers' financial difficulties, including bankruptcy. Changing suppliers may require a long lead time. We may not be able to locate alternative suppliers in sufficient quantities, of suitable quality, or at an acceptable price within a reasonable period of time, or at all. Continued supply disruptions could exert pressure on our costs, and we cannot assure you that all or part of any increased costs can be passed along to our customers in a timely manner or at all, which could negatively affect our business, overall profitability and financial performance.

An increase in prices of raw materials and consumables or shortage in supply may disrupt our supply chain, increase our production costs and delay deliveries of our products to customers.

The primary raw materials and consumables that we use in the production of our products are LED chips, leadframes, PCBs, automotive lamp modules, plastic particles, drivers and electronic components, among others. Our raw material and consumable costs that constitute the cost of sales amounted to RMB966.2 million, RMB947.9 million, RMB1,182.4 million, RMB409.8 million and RMB563.9 million, respectively, in 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, representing 83.3%, 80.6%, 77.8%, 78.8% and 81.9%, respectively, of our total cost of sales over the same periods. As a result, our production volume and production costs depend on our ability to source key raw materials and consumables at competitive prices. However, the raw materials and consumables we use are subject to price volatility caused by external factors, such as commodity price fluctuations, changes in supply and demand, logistics and processing costs, our bargaining power with suppliers, inflation, and governmental regulations and policies. We generally do not enter into long-term supply agreements with fixed price arrangements, which is in line with the industry norm. We have adopted comprehensive policies and measures to manage the price fluctuations of raw materials. See “Business — Procurement and Supply Chain Management — Raw Materials and Consumables.” During the Track Record Period and up to the Latest Practicable Date, we did not experience quality issues or shortages with our raw materials and consumables that materially affected our operations. However, we may be unable to obtain raw materials and consumables in the quantities of a quality or at a price that we require, which may disrupt our supply chain, increase our production costs and delay deliveries of our products to customers.

RISK FACTORS

Our success depends to a great extent on our R&D capabilities. Failure of our technology and R&D efforts may hurt our competitiveness and profitability.

Our R&D capabilities and facilities are critical to our success. The industry in which we operate is subject to rapid technological changes and is evolving quickly in terms of technological innovation. In 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, our research and development costs amounted to RMB62.0 million, RMB88.7 million, RMB87.2 million, RMB36.3 million and RMB37.6 million, respectively, representing 4.5%, 6.3%, 4.7%, 5.8% and 4.5% of our total revenue for the same periods, respectively. We may continue investing significant resources in R&D in order to secure design wins from automotive OEMs, offer products with desirable performance and pricing and remain competitive in the rapidly evolving industry.

However, R&D activities are inherently uncertain, generally lasting for a long time and requiring substantial R&D expenses. Our R&D activities and investments made during design in can not guarantee revenue generation, and we may not be able to recover costs incurred. We cannot assure you that our R&D projects will be successful or completed within the anticipated time frame and budget, or that our newly-developed products will have commercial success. Even if we secured design wins or if such products can be successfully commercialized, we cannot assure you that we will achieve their anticipated sales target or profit.

In addition, our existing or potential competitors may develop products which are similar or superior to our products with more competitive price. Due to uncertainties in the time frame for developing new products and the duration of the market window for these products, we may have to abandon ongoing developments that are no longer commercially viable, even after having invested significant resources in their R&D. If we fail in our product launch efforts, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Unsatisfactory performance of or defects in our products, or failure to maintain an effective quality management system, may harm our reputation, lead to product returns or recalls and materially and adversely affect our business, financial condition and results of operations.

We may offer products that are affected by substandard quality or unsatisfactory performance due to design and manufacturing defects. We may also be exposed to potential product liabilities. The consequences of such product defects may be severe and we may be subject to claims for contract breaches or be liable for property damage or even bodily injuries and harms. Further, the causes of product defects may be manifold and sometimes beyond our control. Besides errors in the design, R&D and production of our products, defects may also be caused by defective components or materials delivered by our suppliers and integrated in our products. As we do not have direct control over the quality of the materials and intermediate products manufactured or supplied by third parties, we are exposed to a risk relating to the quality of such materials and

RISK FACTORS

intermediate products. In addition, we may manufacture particular products pursuant to specifications and quality requirements set by our customers. If our products do not meet the specifications and quality requirements stipulated by our customers, relevant production may be discontinued until the cause of the product defect has been identified and remedied.

Therefore, our failure to maintain the consistent quality control throughout our production process may result in the substandard quality or unsatisfactory performance of our products, causing a failure to achieve or maintain automotive-grade status or other certifications, significant damage to our market reputation and a decrease in our sales volume. If we deliver any defective products, or if there is a perception that our products are of substandard quality or provide unsatisfactory performance, we may incur substantial costs due to returns or replacements of our products, and our market reputation and sales volumes may be adversely affected. In 2021, 2022, 2023 and the five months ended May 31, 2024, the value of the products returned in terms of revenue accounted for less than 0.15% of our total revenue for the same periods. We may also need to upgrade or rectify our production procedures or modes to meet the quality and performance required by our customers. Such upgrade or rectification may be costly and have a material adverse effect on our financial condition and results of operations.

In addition, as our customers may sell our products after their assembly process to end consumers in their respective markets, we may be also exposed to potential product liability claims from end consumers in the relevant jurisdictions in case that any safety damage results from the use of our products even if we have no direct sales to such end consumers. During the Track Record Period and up to the Latest Practicable Date, we had not, due to material product quality issues, (i) received fines, product recall orders or other penalties from the PRC government or other regulatory bodies, (ii) received any product return requests, or (iii) received complaints from our customers that have a material adverse effect on our business, financial condition and results of operations. However, there can be no assurance that we will not experience material product liability losses in the future, or that we will be able to defend such claims at a contained level of cost.

We may not be successful in executing our business plans and strategies effectively or at all, and our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our business plans and strategies are based on our assumptions of future events which may entail certain risks and are inherently subject to uncertainties. These assumptions may not be correct, which could affect the commercial viability of our business plans and strategies. As such, there can be no assurance that our business plans and strategies will be implemented successfully as scheduled or at all.

RISK FACTORS

If we fail to implement our business plans and strategies effectively and efficiently, we may be unable to expand our operations, manage our growth, take advantage of market opportunities as expected or remain competitive in the industry. Furthermore, even if we implement our business plans and strategies effectively and efficiently, there may be other unexpected events or factors beyond our control that may prevent us from achieving the desirable and profitable results, such as the changes in local laws and regulations and governmental policies, the availability of skilled professionals and changes in consumer demand. Moreover, our business plans and strategies may increase our operating costs, such as higher staff costs, as well as greater depreciation for production equipment and facilities, and increase our cash outflows for operating and investing activities. Accordingly, if our business plans and strategies cannot be successfully implemented, or if they do not yield ideal results, we may have significant difficulties in recovering our costs and therefore experience a material adverse impact on our business, financial condition and results of operations.

Our success relies on key management and other highly qualified personnel with specialized skills.

Our future success is significantly dependent upon the continued service of our management and highly qualified personnel with specialized skills. Our ability to compete effectively depends on our ability to retain and motivate existing employees and attract new employees. We may need to offer higher compensation and other benefits to attract and retain key personnel and our compensation and benefits payments may increase unexpectedly or at a greater rate than expected. If we lose the services of any member of management or qualified personnel, we may not be able to locate suitable or qualified replacements in a timely manner at reasonable cost, or at all. Our failure to attract and retain key management or qualified personnel and any increase in staffing costs to retain such personnel could have a negative impact on our ability to maintain our competitive position and grow our business, and may have a material adverse effect on our financial condition, results of operations and growth prospects.

Our key management and employees are subject to confidentiality terms and noncompete arrangements. However, we cannot assure you that such terms or arrangements can be fully and legally enforced. If any of our management or other key personnel joins or establishes a competing business, we may lose some of our customers, which may have a material adverse effect on our business.

RISK FACTORS

Failure to develop and introduce new products could adversely impact our competitiveness, performance and prospects for future growth.

We operate in an industry that is subject to rapid and unpredictable changes in customer demand and trends. Our success depends to a large extent on our ability to provide customers with new, attractive products tailored to their needs on a timely basis at favorable profit margins.

The commercial success of new products are subject to many factors that are not entirely within our control, including our ability to carry out effective and efficient technology development and manufacturing, gauge market demand, make timely delivery and offer satisfactory after sales services for the new products. If our new products cannot achieve good commercial results, we may be unable to achieve desired revenue and profit return, or even recoup initial investments.

We may also sell new products to new markets, the success of which is dependent on various factors such as market conditions, competition landscape, regulatory environment, supply chain, customer demand, and the positioning of our new products, as well as our ability to offer such products at competitive terms and prices. The new markets may have high entry barriers, which may prevent new entrants to achieve market penetration. There can be no assurance that we will be able to successfully satisfy our customer demand on a sustainable and profitable basis.

If we are unable to develop, produce and introduce new products within or beyond our current business that meet customer demand at favorable margins, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to maintain or enhance our brand recognition, or if we incur excessive expenses in this effort without achieving the anticipated benefits, our reputation, business, financial condition and operating results may suffer.

We believe that maintaining and enhancing our brand is of significant importance to the success of our business. Well-recognized brands are important to enhancing our attractiveness to our customers. Since we operate in a highly competitive market, brand maintenance and enhancement directly affect our ability to maintain our market position. The successful promotion of our brand will depend on the effectiveness of our marketing efforts and word-of-mouth referrals we receive from satisfied customers.

We incurred selling and marketing expenses of RMB20.8 million, RMB30.0 million, RMB45.2 million, RMB16.4 million and RMB20.4 million in 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, respectively, representing 1.5%, 2.1%, 2.4%, 2.6% and 2.4% of our total revenue during the same periods, respectively. We may incur extra expenses in

RISK FACTORS

promoting our brand. The results of such initiatives may not cover the costs of the increased investment. We cannot guarantee that our marketing efforts will be successful, or that they will yield significant benefits that justify the costs. Any such failure may result in our declining market recognition and position, and materially and adversely affect our business, financial condition and results of operations.

We have businesses in a number of different countries and jurisdictions, which are subject to legal, regulatory, operational and other risks inherent in international and cross-border operations.

In 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, the revenue from our overseas business represented 23.7%, 19.5%, 15.1%, 17.4% and 16.1% of our total revenue for the same periods, respectively. We expect to expand further into international markets, and may subject ourselves to the following risks:

- challenges in providing products, services and support, in recruiting personnel in international markets, and in managing sales channels and distribution networks effectively;
- revenue fluctuation from period to period in the future due to unfavorable market conditions, intense competition, unattractive products and services, downward pressure on our selling price and any other inherent risks associated with our international business operations;
- challenges in commercializing our products in new markets where we have limited experience with the local market dynamics and no existing or developed sales, distribution and marketing infrastructure;
- difficulties in dealing with regulatory regimes, regulatory bodies and government policies with which we may be unfamiliar, in order to obtain permits, licenses and approvals necessary to manufacture, market and sell products in or to various jurisdictions;
- adverse changes in, or our failure or the failure of our suppliers to comply with customs laws, regulations, tariffs and quotas set by the local government and PRC government when we import raw materials and consumables or export our products among the different countries or jurisdictions where we do business;
- potentially reduced protection for our IP rights and potential breach of third-party intellectual rights;

RISK FACTORS

- differences in accounting treatment in different countries and jurisdictions, potential adverse tax implications and foreign exchange losses;
- inability to effectively enforce contractual or legal rights; and
- changes in laws, regulations and policies as well as political, economic and market instability or civil unrest in the relevant countries and jurisdictions.

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

Expansion and acquisitions of or investments in our businesses, products, technologies, production capacity or know-how could subject us to risks and uncertainties.

We established Lynway Vision together with Geely Holding in 2018. In September 2021, we acquired the controlling interest in Lynway Vision and have consolidated its results since then. See “History, Development and Corporate Structure — Major Acquisitions, Disposals and Mergers — Acquisition of Lynway Vision” and Note 32 to the Accountants’ Report of the Group in Appendix IA to this prospectus. The establishment and integration of Lynway Vision is subject to considerable uncertainties and risks, and requires, among other things, the ability to integrate Lynway Vision into our Group and to retain or replace certain qualified executives and other key employees at Lynway Vision. There can be no assurance that we will be able to achieve the anticipated effects or returns from our acquisition and consolidation of Lynway Vision in time or at all. It is possible that we may not be in a position to realize expected revenue, synergies, growth opportunities and/or other benefits after the acquisition and consolidation of Lynway Vision.

We may continually and actively seek strategic opportunities for acquisitions of or investments in businesses, products, technologies, production capacity or know-how that we believe would benefit our product development, R&D capabilities, technology, and distribution network. There can be no assurance that we could successfully execute our expansion and acquisition plans and complete the relevant transactions as expected. In addition, our ability to grow through acquisitions and investments depends upon our ability to identify and integrate suitable targets and to obtain necessary financing at reasonable terms. In particular, acquisitions may involve significant risks and uncertainties, including, but not limited to: (i) difficulties in integrating acquired companies, personnel or products into our business, particularly the different quality management, customer service and other business functions; (ii) delays or failures in realizing the benefits of acquisitions and investments; (iii) diversion of our management’s time and attention from other business concerns; (iv) higher than anticipated costs of integration; or (v)

RISK FACTORS

difficulties in retaining key employees of acquired businesses. Furthermore, we may also discover deficiencies in internal controls, data adequacy and integrity, product quality, and regulatory compliance and liabilities in the businesses we have acquired which we did not uncover prior to such acquisitions. Consequently, we may become subject to penalties, lawsuits or other liabilities. Any difficulties in the integration of acquired businesses or products, or unexpected penalties, lawsuits or liabilities in connection with such businesses or products could materially and adversely affect our business, financial condition and results of operations.

Any failure to offer high-quality maintenance and support services for our customers may harm our relationships with them and, consequently, our business.

As we continue to grow our operations and support our customer base, we need to be able to continue to provide efficient support and effective maintenance that meets our customer demands at scale. As of May 31, 2024, we had more than 200 quality control personnel responsible for systematic quality management, R&D quality management, procurement quality management, production process quality management and customer service management. See “Business — Quality Control.” We may not be able to recruit or retain sufficient qualified support personnel with experience in supporting customers of our products and solutions. As a result, we may be unable to quickly respond to accommodate short-term increases in customer demand for technical support or maintenance assistance. We may also be unable to modify the future scope of our maintenance services and technical support to compete with changes in the technical services provided by our competitors.

We generally provide a three-year warranty period or mileage-based warranty coverage in compliance with applicable regulations and provisions and subject to the specific warranty agreements for our intelligent automotive vision products, and we generally provide a one-year warranty period for our high-end lighting products and advanced display products. The warranty agreements will be entered into according to the customers’ templates upon request. See “Business — Quality Control — Quality Control Measures — Customer Service Management.” If we experience increased customer demand for support and maintenance, we may face increased costs that might harm our results of operations. If we are unable to provide efficient customer maintenance and support, our business may be harmed. Our ability to attract new customers is highly dependent on our business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality maintenance and support services, or a market perception that we do not maintain high-quality maintenance and support services for our customers, would harm our business.

Our policy allows products with defects to be returned and exchanged by our customers within the warranty period. See “Business — Quality Control Measures — Customer Service Management.” If we experience any deterioration in the quality of our products, we will incur

RISK FACTORS

higher costs associated with returns, exchanges and warranties. We may also be required by law to adopt new or amend existing return, exchange and warranty policies from time to time. While these policies improve customer experience and promote customer loyalty, which may in turn help us acquire and retain customers, they also subject us to additional costs and expenses which we may not recoup through increased revenue. We cannot assure you that our return, exchange and warranty policy will not be misused by our customers, which may significantly increase our costs and may materially and adversely affect our business and results of operations. If we revise these policies to reduce our costs and expenses, our customers may be dissatisfied, which may result in the loss of existing customers or failure to acquire new users at the pace desired, which may materially and adversely affect our results of operations.

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

Our growth prospects and future profitability depend on, among others, our ability to upgrade and increase the production capability and capacity, either generally or with respect to demand from customers for particular products. See “Business — Production — Production Expansion Plan.”

To successfully upgrade and expand our production capability and capacity, we need to make cost-effective and efficient upgrade and expansion plans, expand and construct new facilities or equipment either by our own R&D or procurements from third parties, and hire and train professionals necessary to operate such facilities or equipment, all of which may be affected by, several factors including, but not limited to, the following:

- availability of working capital for purchasing facilities or equipment;
- shortages or delays in the delivery of facilities or equipment;
- difficulties or delays which may arise in installing the facilities or equipment; and
- implementation of new production processes.

We cannot guarantee that our upgrade or expansion plan, if implemented, will be operationally or financially successful and substantiated by sufficient market demand for or profit margin of our products. If we are unable to implement the upgrade or expansion plan cost-effectively and efficiently, our business and profitability may be adversely affected. In

RISK FACTORS

particular, the implementation of our expansion plans may incur significant staff costs, depreciation and amortization charges and other expenses, which may adversely affect our financial condition.

In addition, if we do not receive sufficient orders from our customers to effectively utilize our production bases, we may be subject to low utilization rates of production capacity, over-capacity or high depreciation charges for our production bases, which may hurt our profitability and results of operations. Furthermore, if market demand declines in the future, we may not be able to recoup the costs incurred for construction of any new factories or expansion of any existing factories and maintenance of expanded production capacity. Any delay or cancellation of our expansion plan could also subject us to disputes with various counter-parties. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Failure to manage our future growth or profitability effectively may materially and adversely affect our business operations and prospects.

We experienced growth in revenue and gross profit margin during the Track Record Period. In 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, our revenue was RMB1,388.4 million, RMB1,410.6 million, RMB1,858.0 million, RMB624.6 million and RMB843.2 million, respectively, and our gross profit margin was 16.4%, 16.7%, 18.2%, 16.7% and 18.3%, respectively, during the same periods. However, this only reflects our historical performance and may not be indicative of our future performance. In addition, the profitability of our different businesses may fluctuate given different market conditions and our corresponding pricing strategies. For example, although the gross profit margin of our intelligent automotive vision business improved to 17.5% in 2022 from a gross loss margin of 1.1% in 2021 as we started to benefit from the economies of scale in 2022, the gross profit margin decreased to 14.9% in 2023 as we adopted a competitive pricing strategy to gain greater market share in response to the intense market competition.

The sustainability of our growth and profitability depends on a number of factors, many of which are beyond our control, including competition, regulatory evolution, evolving customer demands and changes in economic condition. If we are not able to effectively manage our business growth and profitability, we may not be able to successfully implement the strategies necessary to further our business prospects on schedule or within our budget, or at all. Accordingly, we may not be able to sustain the growth and profitability we achieved in the past. Any failure to manage our future growth or profitability effectively may materially and adversely affect our business operations and prospects.

RISK FACTORS

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

Our inventories are mostly raw materials and consumables, work in progress, finished goods and contract goods. As of December 31, 2021, 2022, 2023 and May 31, 2024, we had inventory of RMB188.0 million, RMB211.6 million, RMB216.0 million and RMB250.7 million, respectively. Our inventory turnover days in 2021, 2022, 2023 and the five months ended May 31, 2024 was 58, 61, 51 and 51, respectively. Our business model requires us to manage our inventories efficiently.

We depend on our demand forecasts to make purchase decisions for raw materials and consumables and to pace our production progress to manage our inventories. Such demand, however, can change significantly from time to time and we may not always be able to accurately make predictions. Demand may be affected by general market conditions, end market conditions, new product launches, pricing and discounts, and not all of them are within our control. In addition, as we develop and market a new product, we may not be successful in establishing stable and favorable supplier relationships or accurately forecasting demand. The acquisition of certain types of raw materials and consumables may require significant lead time and prepayment and they may not be returnable. Furthermore, as we plan to continue expanding our product offerings, we expect to include a wider variety of raw materials and consumables, which will make it more challenging for us to manage our inventory and logistics effectively.

We cannot guarantee that our inventory levels will be able to swiftly meet the demands of customers, which may adversely affect our revenue. We also cannot guarantee that all of our inventory can be sold as products within a reasonable period of time. If we fail to manage our inventory effectively, we may be subject to increased inventory storage costs, a heightened risk of inventory obsolescence, a decline in inventory value and significant inventory write-offs. Any of the above may materially and adversely affect our results of operations and financial condition. On the other hand, if we underestimate demand for our products, or if our suppliers fail to supply in a timely manner, we may experience inventory shortages, which might result in diminished customer base and lost of revenue, any of which could harm our business, financial condition and results of operations.

The development cycles of our products can be long and we are subject to risks relating to the planning and implementation of complex projects.

The planning and implementation process of our products is complex and the development cycles of our products can be long. For example, the product development process of intelligent automotive lamps generally can take around 12 to 18 months for the entire development cycle, while the development process of intelligent automotive lamps for automotive OEMs with which we cooperate for the first time can take even longer. In addition, there may be various challenges

RISK FACTORS

during the product development process, including, in particular, technical or process handling issues. As a result, we may face additional expenses and increased quality risks. If we are unable to resolve these issues, the development of that product may fail and our business plan and financial condition may be adversely affected.

Further, domestic automotive OEMs generally do not commit to minimum purchase quantities from their suppliers, even when a supplier is nominated for a certain vehicle. As such, we cannot guarantee that we may successfully commercialize such product development results on a timely basis at favorable margins. Any of these factors or developments could have a material adverse effect on our business, financial condition and results of operations.

We may have limited control over the quality, availability and costs of our subcontractors.

During the Track Record Period, we engaged certain subcontractors to produce advanced display LED modules. In 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, our subcontracting costs that constitute the cost of sales amounted to RMB25.4 million, RMB21.9 million, RMB18.0 million, RMB5.8 million and RMB9.8 million, respectively, which accounted for 2.2%, 1.9%, 1.2%, 1.1% and 1.4% of our cost of sales during the same periods. See “Business — Procurement and Supply Chain Management — Subcontracting.” Our inability to hire qualified subcontractors may hinder our ability to complete a project successfully. Our regularly monitor and quality checks on the performance of subcontractors may not be effective or sufficient to ensure their service quality. We are exposed to legal liabilities if we are not able to monitor the performance of our subcontractors, or if our subcontractors violate any laws, rules or regulations in connection to matters such as environmental protection, and health and safety, which may affect their renewal of relevant registrations or license or may even lead to revocation of their registrations or license.

In addition, the subcontracting arrangement also exposes us to risks associated with any nonperformance, delayed performance or substandard performance by our subcontractors. In such case, we will have to appoint replacement subcontractors and additional costs will be incurred. We may also incur additional costs or be subject to liability due to delay in schedule or defect in the works of our subcontractors or if there is any accident causing personal injuries or death of our subcontractors’ employees. These events may impact our profitability, financial results and reputation, as well as result in litigation or damages claims.

RISK FACTORS

If our logistics service providers fail to provide reliable and timely logistics services, our business, financial condition and results of operations may be materially and adversely affected.

We engage logistics service providers to transport products to our customers. The services provided by our logistics service providers may be suspended, canceled or delayed for various reasons beyond our control, including improper handling by our logistics service providers, labor disputes or strikes, acts of war or terrorism, outbreaks of epidemics, earthquakes and other natural disasters, which could cause interruption to the sales or delivery of our products. Disputes with or a termination of our contractual relationships with one or more of our logistics companies could result in delayed delivery of products or increased costs. If we are unable to maintain or develop good relationships with logistics companies or find suitable replacements in a timely manner, it may inhibit our ability to offer products in sufficient quantities, on a timely basis, or at prices acceptable to our customers. In addition, any improper handling of our products by the logistics service providers could also result in product damage, which may in turn lead to product recalls, product liabilities, increased costs and damage to our reputation, which may in turn adversely affect our business, financial condition and results of operations. Any increase in the service costs of our logistics service providers may also lead to an increase to our logistic expenses, which may in turn negatively affect our results of operations.

We rely on third-party service providers and business partners to provide products and services to us and our customers.

We work with a broad range of third-party service providers and business partners, including logistic service providers, subcontractors and channel partners. These third parties are subject to risks similar to ours relating to business interruption, systems and employee failures, and cybersecurity and data protection, and are also subject to their own legal, regulatory and market risks.

Our third-party service providers and business partners may not fulfill their respective commitments and responsibilities in a timely manner and in accordance with the terms agreed upon or applicable laws. In addition, while we have procedures in place for assessing risks along with selecting, managing and monitoring our relationships with third-party service providers, suppliers and business partners, we do not have control over their business operations or governance and compliance systems, practices and procedures, which may increase our financial, legal, operational and reputational risk. If we are unable to effectively manage our relationships with third-party service providers, suppliers and business partners, or for any reason our third-party service providers, suppliers or business partners fail to satisfactorily fulfill their commitments and responsibilities, our business, results of operations and financial condition could

RISK FACTORS

suffer. Upon expiry of existing contracts with third parties, we may not be able to renew such contracts at terms commercially favorable to us, if at all, or find an appropriate substitute in a timely manner, in which case our business may be adversely affected.

Our facilities and production are susceptible to interruption, damage or loss caused by power outages or other events beyond our control.

We have a large number of facilities at which our products are developed and manufactured. Our development, production and procurement processes involve many different, often interrelated phases and are complex to manage. Even when technical and safety standards for the construction, operation and maintenance of our facilities and equipment are observed, operational disruptions and delays may still happen. As such, interruptions, damage or loss to our production facilities and equipment caused by fire, severe weather, earthquakes or other acts of God or other events which are beyond our control could harm our business, operating results and prospects.

In addition, our manufacturing processes require a stable source of electricity. The local electricity supply may not be reliable or stable for consumption at all times. We cannot guarantee that we will not experience blackouts or a shortage of electricity in the future. If we do not have adequate electricity to sustain normal production, we may need to limit, delay or halt our production, and any production downtime or stoppage can have a significant negative effect on our reputation and general business operations and, in the case of insufficient insurance coverage, may also have material adverse effects on our business, financial condition and results of operations.

Our performance depends on favorable labor relations with our employees, and any deterioration in labor relations, shortage of labor or material increase in wages may have a material adverse effect on our results of operations.

Our success depends on our ability to hire, train, retain and motivate our employees. As of May 31, 2024, we had 2,216 full-time employees. See “Business — Employees.” We have not experienced any material work stoppages or strikes in the past. However, we cannot guarantee that any of such events will not arise in the future. If our employees engage in a strike or other work stoppage, we may experience significant operational disruption and/or accept higher labor costs, resulting in an adverse effect on our businesses, financial condition and results of operations. Our employees are currently represented by labor unions. We regard favorable labor relations as a significant factor that can affect our performance and any deterioration in our labor relations with employees or the labor union could cause labor disputes, which could result in the disruption of production and operations. In January 2024, a local people’s court ordered one of our subsidiaries to pay a former employee of ours approximately RMB4.1 million in relation to a compensation

RISK FACTORS

dispute. See “Business — Legal Proceedings and Compliance — Legal Proceedings.” Furthermore, certain professionals in our industry may be subject to noncompete restrictions, we may be impacted by such agreement.

In 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, our total staff costs (including staff costs under cost of sales, selling and marketing expenses, administrative expenses and research and development costs) amounted to RMB139.4 million, RMB166.4 million, RMB200.7 million, RMB72.6 million and RMB90.1 million, respectively, representing 10.0%, 11.8%, 10.8%, 11.6% and 10.7% of our total revenue for the same periods, respectively. In addition, labor costs in regions where we operate have been increasing in recent years and may potentially continue increasing. As such, we may have to increase our total compensation to attract and retain the experienced professionals required to achieve our business objectives. However, these increased costs might not be able to be passed onto customers by increasing our products’ selling prices in light of market competition. In such circumstances, our profit margin may decrease, which could have an adverse effect on our financial condition and results of operations.

Our performance may suffer from business disruptions associated with information technology, system implementations, or catastrophic losses affecting our IT systems.

We rely on our IT systems to manage and operate our businesses, and record and process transactions. The satisfactory performance, reliability and carrying capacity of our IT system and servers are critical to our success and our ability to provide quality services. Consistent and efficient operation of the IT systems is imperative to the successful sales and earnings performance of our various businesses in many countries and jurisdictions. In addition, we rely on our systems and network to provide high-quality products and services. However, our systems and network operations are vulnerable to disruptions arising from human error, power failure, computer viruses, spam attacks, unauthorized access and other similar events. Disruptions to, or instability of, our systems and network that hinder our customers from reaching our products or prevent us from maintaining our technical secrets could harm our business and reputation.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to such disruptions or instabilities that had materially and adversely affected our systems and network operations. However, there can be no assurance that we would not in the future be subject to such disruptions or instabilities that may result in material damages or remediation costs. Additionally, we must continue to upgrade and improve our IT system to support our business growth, and failure to do so could impede our growth. However, we cannot assure you that we will be successful in executing these IT system upgrades and improvement strategies. In particular, our IT systems may experience interruptions during upgrades, and the new technologies or infrastructures may not be fully integrated with the existing systems on a timely basis, or at all.

RISK FACTORS

If our IT system does not function properly, it could cause system disruptions and slow response times, affecting data transmission, which, in turn, could materially and adversely affect our business, financial condition and results of operations.

If we fail to maintain effective internal controls, our business, financial results and reputation could be materially and adversely affected.

Our success depends on our ability to effectively utilize our standardized management system, information systems, resources and internal controls. As we continue to expand, we will need to modify and improve our financial and managerial controls, reporting systems and procedures and other internal controls and compliance procedures to meet our evolving business needs. For example, we entered into sales agreements with an individual customer, in 2021 and 2022. Our transactions with the customer were settled through third-party accounts in 2021 and 2022, relevant revenue amounting to RMB1.41 million and RMB0.69 million, respectively. The third-party accounts were held by two of the customer's relatives. The customer made this arrangement primarily to facilitate funds transfer in a more flexible and convenient manner. Starting from January 2023, we strengthened settlement management and stopped accepting third-party settlement and had no more transaction settled by parties other than our contractual customers. If we are unable to improve our internal controls, systems and procedures, they may become ineffective and cause errors, information lapses or production breakdowns that may adversely affect our business. If we are not successful in identifying and overcoming weaknesses in our internal controls, our ability to effectively manage our business may be affected.

Negative publicity and allegations involving us, our shareholders, directors, officers, employees and business partners may affect our reputation and, as a result, our business, financial condition and results of operations may be negatively affected.

Negative publicity and allegations involving us, our shareholders, directors, officers, employees and business partners, or the LED intelligent vision market as a whole may materially and adversely harm our brand image and reputation and cause deterioration in the level of market recognition of and trust in the products provided by us, thereby resulting in reduced sales volumes and revenues, potential loss of business partners as well as the loss of highly qualified personnel with specialized skills. In addition, such negative publicity may come from malicious harassment or unfair competition acts by third parties, which are beyond our control. Such negative publicity may also result in the diversion of management's attention, and governmental investigations or other forms of scrutiny, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

RISK FACTORS

Any reduction or discontinuation of preferential tax treatment or government grants may adversely and materially impact our financial condition and results of operations.

We benefited from preferential tax treatment and government grants during the Track Record Period. The PRC EIT Law and its implementation rules have adopted a statutory enterprise income tax rate of 25%. However, the income tax of an enterprise that has been determined to be a high and new technology enterprise can be reduced to a preferential rate of 15%. Our Company and Lynway Vision were both qualified as a High and New Technology Enterprise under the relevant PRC laws and regulations, in December 2021 and December 2022, respectively, and such qualification may be renewed every three years. In addition, our Company, Lynway Vision and Linlux were subject to 100% of weighted pre-tax deduction of R&D expenses. If we cease to be entitled to preferential tax treatment or if the relevant PRC laws and regulations change, our income tax expenses may increase, which would adversely affect our financial condition and results of operations.

We have also received government grants. Our government grants recognized in profit or loss amounted to RMB29.9 million, RMB12.7 million, RMB11.2 million, RMB6.2 million and RMB1.4 million in 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, respectively. See “Financial Information — Principal Components of Our Consolidated Statements of Profit or Loss — Other Income and Gains.” We cannot assure you that we will continue to receive and benefit from such grants in the future.

We have granted, and may continue to grant, share options and other types of awards under our share incentive plan, which may result in increased share-based payment expenses.

We revised the existing share incentive scheme and adopted new ones on December 4, 2023 to incentivize the management team, retain talent and promote our long-term sustainable development. As of the Latest Practicable Date, 32,533,698 Shares were held by the employee shareholding platforms. See “Appendix VI — Statutory and General Information — Further Information about Our Directors, Supervisors, Management and Substantial Shareholders — Share Incentive Schemes.” Our share-based payment expenses were RMB1.7 million, RMB1.7 million, RMB3.2 million, RMB0.7 million and RMB3.1 million in 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, respectively. We believe the granting of share-based compensation benefits is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based compensation benefits to employees in the future. As a result, our share-based payment expenses may increase, which may have an adverse effect on our results of operations.

RISK FACTORS

We are subject to credit risk in respect of our trade and bills receivables.

Our trade and bills receivables represent amounts due from our customers for products in the ordinary course of business. The carrying amount of trade and bills receivables balance of RMB509.0 million, RMB583.2 million, RMB669.5 million and RMB747.6 million, respectively, as of December 31, 2021, 2022, 2023 and May 31, 2024, represented our maximum exposure as of the respective dates to credit risk in relation to trade and bills receivables. As of December 31, 2021, 2022, 2023 and May 31, 2024, our impairment on trade and bills receivables amounted to RMB10.1 million, RMB12.1 million, RMB13.4 million and RMB14.9 million, respectively.

We generally grant credit terms of 60 to 120 days to our customers. However, there can be no assurance that the collection of amounts due from our customers will be timely. This might result in slow turnover of our trade and bills receivables and restrict our working capital resources. As of December 31, 2021, 2022, 2023 and May 31, 2024, the turnover days for our trade and bills receivables amounted to 112, 144, 124 and 129, respectively. See “Financial Information — Description of Certain Components of Our Consolidated Statements of Financial Position — Trade and Bills Receivables.” If we fail to receive payments from our customers on a timely basis, our cash flows and financial condition could be materially and adversely affected.

We may be exposed to risks arising from changes in financial assets at fair value through profit or loss.

As of December 31, 2021, 2022, 2023 and May 31, 2024, we recorded financial assets at fair value through profit or loss of RMB111.3 million, RMB98.3 million, RMB187.5 million and RMB116.9 million, respectively. Our financial assets at fair value through profit or loss recorded as current assets represented investments in wealth management products. Our financial assets are measured at fair value, subject to changes beyond our control. The investment income on financial assets at fair value through profit or loss is recorded under other income and gains. In 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, our investment income from financial assets at fair value through profit or loss amounted to RMB1.1 million, RMB2.2 million, RMB4.0 million, RMB1.1 million and RMB1.4 million, respectively. While we recorded fair value gains on financial assets at fair value through profit or loss of RMB0.4 million, RMB1.2 million, RMB0.5 million and RMB0.4 million in 2021, 2023 and the five months ended May 31, 2023 and 2024, respectively, we recorded fair value loss on financial assets at fair value through profit or loss of RMB0.1 million in 2022. Our financial assets at fair value through profit or loss may fluctuate, which may affect our results of operations and financial condition.

RISK FACTORS

Failure to fulfill our obligations in respect of contract liabilities could adversely affect our liquidity and financial condition.

Our contract liabilities mainly represent cash collections in advance of fulfilling performance obligations. Our contract liabilities increased from RMB7.8 million as of December 31, 2021 to RMB13.6 million as of December 31, 2022, to RMB14.0 million as of December 31, 2023 and decreased to RMB13.7 million as of May 31, 2024. There is no assurance that we will be able to fulfill our obligations in respect of contract liabilities as the fulfillment of our performance obligations is subject to various factors that are beyond our control. If we are not able to fulfill our obligations with respect to our contract liabilities, the amount of contract liabilities will not be recognized as revenue, and we may have to refund advance payments made by our customers. As a result, our liquidity and financial condition may be adversely affected.

We may not be able to obtain adequate financing on commercially reasonable terms on a timely manner, or at all, and any debt financing may contain covenants that restrict our business or operations.

We require significant working capital for our operations or expansion. Our total indebtedness may continue to increase. See “Financial Information — Indebtedness.” Historically, we have generally relied on capital contributions from shareholders, bank loans and other external financing as well as cash generated from our operations to fund our operations and expansion. There can be no assurance that the cash flow generated by our operations will be sufficient to fund our future operations and expansion plans. Our ability to obtain adequate external financing depends on various factors, including our business operations and financial performance, as well as other factors beyond our control, such as the global and local economies, the applicable laws, regulations and policies, and the interest rate and other conditions of the external financial resources available. If we will not be able to procure bank loans or other external financing with commercially reasonable terms or on a timely basis or at all, our business, financial condition, results of operations and business prospects may be materially and adversely affected.

In addition, we may obtain bank loans with financial covenants that include certain restriction upon our operations. Any failure by us to comply with or violate such covenants may constitute an event of default on our loans. If any default occurs, our financial condition, results of operations and cash flows may be materially and adversely affected.

Furthermore, if we acquire additional funding due to our future operations or market changes, we may issue additional equity securities or securities convertible into our equity securities, issue debt securities or obtain credit facilities to meet our capital requirements. Any future sale by us of

RISK FACTORS

our equity securities or securities convertible into our equity securities would dilute Shareholders' interests. The incurrence of additional debt would also result in restrictive covenants limiting our shareholding structure, business and/or operations.

We are exposed to market risk from changes in foreign currency exchange rates which could materially and adversely impact our profitability.

We sell our products in many countries and jurisdictions throughout the world. As a result, there is exposure to foreign currency risk as we enter into transactions and make investments denominated in multiple currencies. For example, changes in currency exchange rates may affect the relative prices at which we and our competitors sell products in the same market and the cost of products and services we require for our operations. Our predominant exposures are in US dollar and RMB. We are subject to risks arising from the translation of balance sheets and income statements of our subsidiaries to US dollars as well as risk arising from the export of products and sales outside the country of manufacturing. With respect to the effects on translated earnings, if the RMB strengthens relative to local currencies, our earnings could be negatively impacted. Our gains on foreign exchange differences were RMB0.6 million, RMB5.3 million, RMB0.2 million, RMB0.2 million and RMB0.7 million in 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, respectively. The translational and transactional impacts will vary over time and may be more material in the future. There can be no assurance that we can implement effective measures to reduce or eliminate our exposure to fluctuations in foreign exchange rates.

If we determine our intangible assets to be impaired, our results of operations and financial condition may be adversely affected.

As of December 31, 2021, 2022, 2023 and May 31, 2024, our goodwill amounted to RMB13.5 million, RMB13.5 million, RMB13.5 million and RMB13.5 million, respectively. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period. For details of our goodwill and the relevant impairment policies, see Note 2.3 and Note 15 to the Accountants' Report of the Group in Appendix IA to this prospectus. If we determine our goodwill to be impaired, our results of operations and financial condition may be adversely affected.

As of December 31, 2021, 2022, 2023 and May 31, 2024, our other intangible assets amounted to RMB39.4 million, RMB33.5 million, RMB26.8 million and RMB25.6 million, respectively, which primarily consist of in-licensed trademarks and patents and office software. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets

RISK FACTORS

with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. For details of our intangible assets (other than goodwill) and the relevant impairment policies, see Note 2.3 and Note 16 to the Accountants' Report of the Group in Appendix IA to this prospectus. If we determine our intangible assets (other than goodwill) to be impaired, our results of operations and financial condition may be adversely affected.

The recoverability of our deferred tax assets is subject to accounting uncertainties.

In the application of our accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. As of December 31, 2021, 2022, 2023 and May 31, 2024, we recognized deferred tax assets of RMB9.0 million, RMB37.7 million, RMB37.0 million and RMB37.9 million, respectively. Based on our accounting policies, deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. For details of our deferred tax assets and the relevant recognition policies, see Note 2.3 and 17 to the Accountants' Report of the Group in Appendix IA to this prospectus. The recognition of a deferred tax asset mainly depends on our management's judgment as to whether sufficient future profits or deductible temporary differences will be available in the future. Management will continue to conduct review and additional deferred tax assets can be recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. If sufficient profits or deductible temporary differences are not expected to be generated or are less than expected, a material reversal of deferred tax assets may arise in the future.

We may infringe intellectual property rights of third parties, which can lead us to time-consuming and costly intellectual property infringement claims.

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

RISK FACTORS

Additionally, the application and interpretation of the PRC laws relating to IP, the procedures and the standards for granting trademarks, patents, copyrights, know-how or other IP rights in the PRC are still evolving, and we cannot assure you that the PRC courts or regulatory authorities would agree with our analysis. If we were found to have violated the IP rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual properties, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may not be able to protect our intellectual property rights, and our ability to compete could be harmed if our intellectual property rights are infringed by third parties.

We cannot assure you that we can prevent third parties from infringing upon our IP rights. Unauthorized use of our IP, unfair competition, defamation or other violations of our rights by our users, employees and/or third parties may harm our brand and reputation, and the expenses incurred in protecting our IP rights may materially and adversely affect our business. We may, from time to time, be required to institute litigation, arbitration or other proceedings to enforce our IP rights, which would likely be time-consuming and expensive to resolve and would divert our management's time and attention regardless of its outcome, materially and adversely affecting our business, financial condition and results of operations.

Our measures to enforce or defend our IP rights may not always be successful. Preventing any unauthorized use of our intellectual properties is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual properties. In the event that we resort to litigation to enforce our IP rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in protecting or enforcing our IP rights may have a material and adverse effect on our business, financial condition, results of operations and prospects.

New legislation or changes in the regulatory requirements regarding the end markets of our products may affect our business operations and prospects.

We offer a broad portfolio of LED products which can be used for a wide range of end markets, including the intelligent automotive vision, high-end lighting and advanced display.

For example, we benefit from PRC government policies at central and local levels that support the development of electronic products and EVs. The Several Measures for Promoting the Consumption of Electronic Products (《關於促進電子產品消費的若干措施》) and the Several Measures for Promoting Automobile Consumption (《關於促進汽車消費的若干措施》) issued by

RISK FACTORS

NDRC and other PRC central departments in July 2023 detailed measures to boost the consumption of automotive and electronic products, including supporting the construction of supporting facilities for EVs, promoting the purchase of EVs in the public sector, increasing car consumption credit support, creating more electronic products consumption scenarios and improving the selling and delivering system of electronic products. Any termination or reduction of the governmental subsidies or other supports may adversely impact the sales volume of the EVs and domestically manufactured vehicles of our customers, which will in turn adversely impact our results of operations, demand for our intelligent automotive vision products, financial condition and our growth prospects.

While we may need to change or adapt our business focus from time to time in response to new rules and regulations regarding the end markets of our products, we may not be able to do so timely and efficiently. Any new legislation or changes in the regulatory requirements could materially and adversely affect our business, financial condition and results of operations. See “Regulatory Overview.”

Our employees and business partners may engage in intentional or negligent misconduct, or violate our internal policies and laws, which could impair the quality of our service, cause us to lose customers or subject us to liabilities.

We risk compromising the quality of our products if our employees and business partners do not perform in accordance with our standards. We have internal policies and guidelines to monitor and ensure the products delivered to our customers are of satisfactory standard. In addition, we have adopted and strictly implemented a series of procedures designed to verify the integrity and qualifications of our employees before they are engaged, and of partners prior to any cooperation. Nevertheless, we cannot guarantee that our employees and business partners will not engage in any intentional or negligent misconduct.

Furthermore, we may be exposed to the risks of fraud or other unlawful activities committed by our employees and business partners. Fraud or other unlawful activities by our employees and business partners may include making unauthorized misrepresentation to our customers, misappropriating third-party IP and other proprietary rights, misusing sensitive customer information and engaging in bribery or other unlawful payments. In any such event, we could incur liability to our customers or any other third parties.

Any claims could subject us to costly litigation and affect our financial condition, and may distract the attention of our management regardless of whether the claims have merit. Any claims could result in complaints from our customers or other third parties, regulatory or legal liabilities or damages to our reputation.

RISK FACTORS

We may be subject to complaints, disputes and lawsuits in the ordinary course of our business.

We may be subject to various complaints, disputes and lawsuits arising out of the ordinary course of our business, including, from time to time, actual or threatened litigation relating to commercial transactions, product liability, workers' compensation, IP claims and regulatory actions. If any complaint is dealt with improperly, we may be subject to litigation and required to pay substantial damages. We were involved in litigations arising out of the ordinary course of our business during the Track Record Period and as of the Latest Practicable Date. See "Business — Legal Proceedings and Compliance — Legal Proceedings." Any complaints, disputes and lawsuits filed by or against us, whether or not meritorious, could result in significant costs and diversion of resources, and could cause serious damage to our reputation.

Specifically, we manufacture products that create exposure to product liability claims. If such products are not properly designed, manufactured or delivered, personal injuries, property damage or business interruptions could result, which could subject us to claims for damages. The costs in connection with defending product liability claims and payment of damages may be substantial. Our reputation could also be adversely affected by such claims, whether or not successful. Furthermore, defective products could result in loss of sales volume or customers and would consequently have a materially adverse effect on our reputation. In addition, potential damages claimed by customers, delayed deliveries, or our failure to comply with quality requirements could negatively affect market acceptance of our other products, which could have a material adverse effect on our business, financial condition and results of operations. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns or any material product liability or major legal claims due to quality control issues, and did not recall any products.

In addition, complaints, disputes and lawsuits filed against us may result from improper or poor quality supplies made to us, while our suppliers may not compensate us for any costs we incur, as a result of such complaints, disputes and lawsuits, in a timely manner or at all. In that case our business and financial condition may be negatively affected.

Our business operates under various permits, licenses, approvals and/or qualifications and the loss of or failure to obtain or renew any or all of these permits, licenses, approvals and/or qualifications may materially and adversely affect our business, results of operations and financial condition.

In accordance with the laws and regulations in the jurisdictions in which we operate, we are required to maintain various approvals, licenses, permits and certifications in order to operate our business. See "Business — Licenses, Approvals and Permits." Complying with such laws and

RISK FACTORS

regulations may require substantial expense and may impose a significant burden, while any noncompliance may expose us to liability. Furthermore, with the introduction and enactment of new laws and regulations, as well as the refinement of interpretations and applications of existing ones, we cannot guarantee that we will be able to obtain all requisite approvals, licenses, permits and certifications.

In addition, in the event that we are required to renew our existing licenses or permits or acquire new ones, whether as a result of the promulgation of new laws and regulations or otherwise, we cannot assure you that we will be able to meet the requisite conditions and requirements, or obtain all requisite approvals, licenses, permits and certifications in a timely manner. If we are unable to obtain, or experience material delays in obtaining, necessary government approvals, our operations may be substantially disrupted, which could materially and adversely affect our business, financial condition and results of operations.

We may be subject to additional contributions of social insurance premiums and housing provident funds, and late payments and fines imposed by relevant governmental authorities.

According to the Regulation on the Administration of Housing Provident Funds (《住房公積金管理條例》), which was promulgated by the State Council and became effective on April 3, 1999, and subsequently amended on March 24, 2019, we are required to set up housing provident fund accounts (住房公積金賬戶) and pay the housing provident fund on time and in full for our employees. According to the PRC Social Insurance Law (《中華人民共和國社會保險法》), which was promulgated by the Standing Committee of the National People's Congress on October 28, 2010, effective on July 1, 2011 and last amended and effective on December 29, 2018, a PRC enterprise is required to obtain social insurance certificates for its employees and to pay the social insurance contributions on time and in full. During the Track Record Period and up to the Latest Practicable Date, our social insurance and housing provident fund contributions did not fully cover all of our employees in accordance with relevant laws and regulations. The shortfall amount of social insurance and housing provident fund contributions is estimated to be RMB12.0 million, RMB16.3 million, RMB18.6 million and RMB9.2 million in 2021, 2022, 2023 and the five months ended May 31, 2024, respectively. See “Business — Employees.” As advised by our PRC Legal Advisor, an employer that has not made social insurance contributions in full and on time as prescribed by the law, may be ordered by social insurance contributions collection institutions to rectify the non-compliance and pay the required contributions within a stipulated deadline and be subject to a late payment fee of up to 0.05% per day. If the employer still fails to rectify the failure to make social insurance contributions within the stipulated deadline, it may be subject to a fine ranging from one to three times the amount overdue. In addition, an employer that has not made housing provident fund contributions at a rate and based on an amount prescribed by the law, or at all, may be ordered by the housing provident fund management center to rectify the

RISK FACTORS

noncompliance and pay the required contributions within a stipulated deadline. If the employer still fails to rectify the failure to make housing provident fund contributions within the stipulated deadline, it may be subject to the court's compulsory enforcement.

During the Track Record Period, we were not subject to any administrative penalties in terms of the contribution of social insurance premium and housing provident funds pursuant to the credit reports obtained from the provincial credit information platform and written confirmations issued by competent government authorities. As of the Latest Practicable Date, we did not receive any notification from the relevant PRC authorities alleging that we had not fully contributed to the social insurance premiums and housing provident funds and demanding payment of the same before a stipulated deadline. However, we cannot assure you that the competent government authorities will not require us to pay the outstanding amount and impose late payment fees or fines on us. If we are subject to investigations related to noncompliance with labor laws and are imposed additional contributions to social insurance premiums and housing provident funds, and late payments and fines, our labor costs could increase. Such increases could adversely affect our business, results of operations, financial condition and prospects.

We may be subject to fines or other penalties under the PRC Labor Contract Law, which may adversely affect our business, profitability and reputation.

During the Track Record Period, we engaged third-party employment agencies to dispatch contract workers. On December 28, 2012, the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) was amended to impose more stringent requirements on labor dispatch and such amendments became effective on July 1, 2013. For example, the number of dispatched contract workers that an employer hires may not exceed a certain percentage of its total number of employees, to be decided by the Ministry of Human Resources and Social Security, and the dispatched contract workers may only engage in temporary, auxiliary or substitutable work. According to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014 (the “**Interim Provisions**”), the number of dispatched contract workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and dispatched contract workers). The Interim Provisions further require the employer that is not in compliance with the above provisions to formulate a plan to reduce the number of its dispatched contract workers to below 10% of the total number of its employees. In addition, an employer is not permitted to hire any new dispatched contract worker until the number of its dispatched contract workers has been reduced to below 10% of the total number of its employees. The employers who fail to comply with the relevant requirements on labor dispatch shall be ordered by the labor administrative authorities to make correction within a stipulated period.

RISK FACTORS

Where the necessary correction is not made within the stipulated period, the employers may be subject to a penalty ranging from RMB5,000 to RMB10,000 per dispatched worker exceeding the 10% threshold.

During the Track Record Period, the total number of dispatched contract workers hired by one of our subsidiaries exceeded 10% of its total number of employees, and it was not fully in compliance with the relevant requirements on temporary, auxiliary and substitutable work. As of the Latest Practicable Date, the subsidiary had proactively rectified such noncompliance incidents by reducing the number of dispatched contract workers to below 10% and adjusting the positions held by dispatched contract workers in compliance with the Labor Contract Law and the Interim Provisions. Even though we had not received any notice of warning or been subject to any administrative penalties or other disciplinary actions from relevant PRC authorities, we cannot assure you that the relevant PRC authorities will not take actions retrospectively against us for our past practice. Such actions may adversely affect our business, results of operations and reputation.

As the interpretation and implementation of the Labor Contract Law, the Social Insurance Law and other labor related regulations (the “**labor-related laws and regulations**”) continually evolve, we cannot assure you that our employment practices do not and will not violate labor-related laws and regulations in the PRC, which may subject us to labor disputes or government investigations. If we are deemed to have violated relevant labor-related laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be materially and adversely affected.

We are subject to national and local environmental and health and safety directives, laws and regulations.

We are subject to a number of environmental, fire control and health and safety laws and regulations, including, but not limited to, the treatment and discharge of pollutants into the environment during our business operations. In addition, our production lines can only be put into operation after the relevant administrative authorities in charge of environmental protection, fire control and health and safety have examined and approved the relevant facilities in China or certain other jurisdictions. We may not be fully compliant with these requirements and may experience several isolated immaterial incidents, and cannot assure you that we will be able to comply with all regulations and obtain all the regulatory approvals required for our production in a timely manner, or at all. Delays or failures in obtaining all the requisite regulatory approvals of such facilities may affect our ability to develop, manufacture and commercialize our products in line with our plans. As requirements imposed by such laws and regulations may change and more stringent laws or regulations adopted, we may not be able to comply with, or accurately predict any potential substantial cost of complying with, these laws and regulations. If we fail to comply with relevant laws and regulations, we may be subject to rectification orders, substantial fines,

RISK FACTORS

potentially significant monetary damages, or production suspensions in our business operations. In addition, we cannot fully eliminate the risk of accidental contamination, biological or chemical hazards or personal injury at our facilities during the process of testing, developing and manufacturing our products. In the event of an accident involving a breach of any of these laws and regulations, we could be held liable for damages and clean-up costs which, to the extent not covered by existing insurance or indemnification, could harm our business. Other adverse effects could result from such liability, including reputational damage.

Furthermore, we may be required to incur substantial costs to comply with current or future environmental laws and regulations. These current or future laws and regulations may impair our R&D or production efforts, or both. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions. Any of the foregoing could materially and adversely affect our business, financial condition, results of operations and prospects.

Failure to comply with PRC property-related laws and regulations regarding certain of our owned and leased properties may adversely affect our business.

We lease properties mainly for offices and employee dormitories. As of the Latest Practicable Date, with respect to our eight out of 19 leased properties in China, we have not received real estate ownership certificates or proof of authorizations from the lessors or the property owners. These leased properties are used as employee dormitories. Therefore, such lessors may not be entitled to lease the relevant properties to us. As advised by our PRC Legal Advisor, without valid real estate ownership certificates or proof of authorizations from the lessors or the property owners, our use of these leased properties may not be valid or may be affected by third parties' claims or challenges against the lease. As advised by our PRC Legal Advisor, in case any such lease is deemed void and we are required to relocate, we are entitled to demand the applicable lessor to return prepaid rent and indemnify us for damages caused by the title defect. Furthermore, as of the Latest Practicable Date, we had not obtained real estate certificates for eight owned properties. See "Business — Properties — Owned Properties." If we are challenged by third parties or government authorities upon any of the circumstances stated above, we may be subject to fines and may be forced to relocate, as the case may be, and, as a result, our results of operations and financial condition may be adversely affected. Furthermore, if we are not able to find a suitable location with commercially reasonable terms or on a timely basis or at all, our operations will be interrupted.

RISK FACTORS

We are subject to anti-corruption, anti-bribery, sanctions and similar laws, and noncompliance with such laws can subject us to administrative, civil and criminal fines and penalties, collateral consequences, remedial measures and legal expenses.

During the Track Record Period, our products were sold in more than 20 countries and regions, primarily in the Asia, Europe and North America. In 2021, 2022, 2023 and the five months ended May 31, 2023 and 2024, our revenue from overseas sales amounted to RMB329.6 million, RMB274.6 million, RMB281.3 million, RMB108.8 million and RMB135.7 million, respectively, accounting for 23.7%, 19.5%, 15.1%, 17.4% and 16.1% of our total revenue, respectively, during the same periods. In 2021, 2022, 2023 and the five months ended May 31, 2024, our overseas suppliers amounted to three, three, five and six, respectively. We are subject to anti-corruption, anti-bribery, sanctions and similar laws and regulations in various countries or jurisdictions in which we conduct business. We have implemented policies and procedures designed to ensure compliance by us and our Directors, officers, employees, representatives, consultants, agents and business partners with laws and regulations. However, our policies and procedures may not be sufficient, and our directors, officers, employees, representatives, consultants, agents and business partners may engage in improper conduct for which we may be held responsible. Specifically, exports of our products must be made in compliance with various economic sanctions and export control laws in different jurisdictions. We take precautions to prevent our products from being provided to any target of sanctions. However, we cannot assure you that our products would not be resold or otherwise provided to such targets by our distributors or customers. Any such resale or provision could subject us to potential government investigations, penalties and reputation damage.

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any incidents or claims due to anti-corruption, anti-bribery, sanctions and similar laws, and noncompliance with such laws that had materially and adversely affected our business operations. Noncompliance with anti-corruption or anti-bribery laws and regulations could subject us to whistleblower complaints, adverse media coverage and investigations, and severe administrative, civil and criminal sanctions, collateral consequences, remedial measures and legal expenses, all of which could materially and adversely affect our business, results of operations, financial condition and reputation.

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

We face various risks in connection with our business, and may lack adequate insurance coverage or have no relevant insurance coverage. As of the Latest Practicable Date, we had obtained and maintained insurance policies that we believe are customary for businesses of our size and type and in line with standard commercial practice in China. As of the Latest Practicable Date, we had not maintained product liability insurance, and do not carry any business interruption

RISK FACTORS

or litigation insurance. See “Business — Insurance.” We cannot guarantee that a product liability claim or other litigation will not be brought against us in the future, or that we will be able to purchase product liability insurance or other related insurance on acceptable terms. If we were to incur substantial losses or liabilities due to fire, explosions, floods or other natural disasters, disruption in our network infrastructure, production facilities or business operations, or any material litigation, our results of operations could be materially and adversely affected. Our current insurance coverage may not be sufficient to prevent us from suffering any loss and there is no certainty that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we were held liable for uninsured losses or amounts and claims for insured losses exceeding the limits of our insurance coverage, our business, financial condition and results of operations may be materially and adversely affected.

We are subject to the risks associated with international trade policies, geopolitics and trade protection measures, and our business, financial condition and results of operations could be adversely affected.

Our operations may also be negatively affected by any deterioration in the political and economic relations among countries and sanctions and export controls administered by the governmental authorities in the countries in which we operate or distribute our products, and other geopolitical challenges, including, but not limited to, economic and labor conditions, increased duties, taxes and other costs as well as political instability. Furthermore, concerns over inflation, energy costs, geopolitical frictions, capital market volatility and liquidity issues may create difficult operating conditions in the future. Sales of our products in certain countries and sales of products that include components obtained from certain foreign suppliers could be materially and adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. The current tension in international trade and rising political tension, particularly those between the U.S. and China, may affect the business operations and results of operation of our customers. This could potentially affect their demand for our LED intelligent vision products. See “— Demand for our LED products depends on trends and developments in their corresponding end products and end markets.” The U.S. government recently made statements and took certain actions that may lead to changes to U.S. and international trade policies, including increasing tariffs under Section 301 of the Trade Act of 1974 on \$18 billion of imports from China. The tariff rate on imported Chinese EVs is set to increase from 25% to 100% in 2024. Similarly, on October 4, 2024, the European Union members voted to adopt provisional countervailing duties of up to 38.1% on imports of Chinese-made BEVs. A final decision is expected to be issued by the end of October 2024 if discussions between the authorities fail to reach an effective solution. While our intelligent automotive vision products can be applied in both EVs and ICE vehicles, and to the best of our knowledge, EVs that adopt our intelligent automotive vision products were primarily

RISK FACTORS

sold in China, unfavorable government policies on international trade may affect the demand for and competitive position of our intelligent automotive vision products. See “Business — Our Products — Intelligent Automotive Vision — Pipeline of Intelligent Automotive Vision Products.”

The international trade policies and trade protection measures are likely subject to frequent changes, and their interpretation and enforcement involve substantial uncertainties, which may be heightened by national security concerns or driven by political and/or other factors that are beyond our control. These may materially and adversely affect us and our key suppliers’ and customers’ abilities to obtain technologies, systems, devices or components that may be critical to our technology infrastructure, product offerings and business operations. If any new tariffs, legislation and/or regulations are implemented by the U.S. or other jurisdictions in the future, or if existing trade agreements are renegotiated, such changes could adversely affect our business, financial condition and results of operations. It may also be difficult or costly to comply with such legislation and/or regulations, and would subject us to regulatory investigations, fines, penalties or other actions and reputational harm.

We face risks related to natural disasters, health epidemics and other outbreaks, which could significantly disrupt our operations.

Our business could be materially and adversely affected by natural disasters, such as snowstorms, earthquakes, fires or floods, outbreaks of a widespread health epidemic or pandemic (including, without limitation, the COVID-19 pandemic), or other events such as wars, acts of terrorism, environmental accidents, power outages or communication interruptions. The occurrence of such a disaster or prolonged outbreak of an epidemic or pandemic illness or other adverse public health developments in the PRC or elsewhere could materially disrupt our business and operations. Such events may also significantly affect our industry and may even cause a temporary closure of the facilities we or our business partners use for our operations, which would severely disrupt our operations and have a material adverse effect on our business, financial condition and results of operations. Our operations could be disrupted if any of our employees or employees of our business partners were suspected of having any of the epidemic or pandemic illnesses, since this could require us or them to quarantine some or all of such employees or disinfect the facilities used for our operations. In addition, our revenue and profitability could be materially reduced to the extent that a natural disaster, health epidemic or pandemic or other outbreaks harm the global or PRC economy in general.

RISK FACTORS

RISKS RELATING TO OUR BUSINESS AND INDUSTRY IN THE PRINCIPAL PLACE OF OUR BUSINESS

Changes in Chinese economic, political and social conditions, as well as government policies, laws and regulations, and industry practice guidelines, could have a material and adverse effect on our business, financial condition, results of operations and prospects.

A significant part of our business, assets and operations are located in China. Accordingly, our business, financial condition and results of operations are subject to the economic, political, social and regulatory environment in the PRC. Government engagement, economic development, investment regulation, resource allocation and foreign exchange management of the PRC economy may have an effect on our business.

Our performance has been and will continue to be affected by China's economy, which, in turn, is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to impact China's economic growth. We are unable to predict all the risks and uncertainties that we face as a result of current economic, political, social and regulatory developments, and many of these risks are beyond our control. All such factors may materially and adversely affect our business and operations as well as our financial performance.

Changes in currency conversion policies may adversely affect the value of your investment.

We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of operating costs and expenses and payments of dividends declared in respect of our H Shares, if any. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy our foreign currency-denominated obligations. Under 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 SAFE approval by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses, such as the repayment of loans denominated in foreign currencies. According to relevant foreign exchange rules, where any material imbalance in international receipts and payments occurs or may occur, the PRC government may implement necessary safeguards and other measures. We cannot assure you that regulations regarding the remittance of RMB into or out of the PRC will not change in the future.

RISK FACTORS

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of the PRC and substantially all of our business, assets and operations are located in China. In addition, the majority of our Directors, Supervisors and executive officers reside in China, and substantially all of the assets of such Directors, Supervisors and executive officers are located in China. As a result, it may not be possible for you to directly effect service of process within the United States or elsewhere outside China upon us or such Directors, Supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned which came into effect on August 1, 2008 and was abolished on January 29, 2024, pursuant to which a party with an enforceable final court judgment rendered by any designated people's court of China or any designated Hong Kong court requiring payment of money in a civil and commercial case according to a written choice of court agreement, may apply for recognition and enforcement of the judgment in the relevant people's court of China or Hong Kong court. China and Hong Kong have concluded the Arrangement on Mutual Recognition and Enforcement of Civil and Commercial Judgments between the Mainland and the Hong Kong Special Administrative Region, which took effect on January 29, 2024. Accordingly, the scope of applicable cases for judicial assistance can be expanded. In principle, judgments made after January 29, 2024 are subject to the provisions of the new "Arrangement". However, for cases where the "written jurisdiction agreement" referred to in the old "Arrangement" was signed before January 29, 2024, the old "Arrangement" still applies regardless of when the judgment is made. Moreover, China has not entered into a treaty for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. In accordance with the Civil Procedure Law of the PRC and other applicable laws, regulations, and interpretations, a court judgment obtained in the United States and any of the other jurisdictions mentioned above may be recognized and enforced in China or Hong Kong in consideration of the treaties providing for the reciprocal enforcement of judgments of courts between China and the country where the judgment was made.

Holders of our H Shares may be subject to income tax obligations in China.

Under the current tax laws and regulations in China, non-Chinese resident individuals and non-Chinese resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us and the gains realized upon the sale or other disposition of our H Shares.

RISK FACTORS

Non-Chinese resident individuals are required to pay individual income tax at a rate of 20% under IIT law for the interests, dividends and bonuses they obtain from China. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdiction in which the foreign individual resides reduce or provide an exemption for the relevant tax obligations. Generally, in accordance with the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 issued by the SAT (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》), domestic non foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, withhold individual income tax at the rate of 10%. When a tax rate of 10% is not applicable, the withholding company shall: (a) return the excess tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (b) withhold such foreign individual income tax at the effective tax rate agreed on if the applicable tax rate is between 10% and 20%; or (c) withhold such foreign individual income tax at a rate of 20% if no taxation treaty is applicable.

For non Chinese-resident enterprises that do not have establishments or premises in China, and for those who have establishments or premises in China but whose income is not related to such establishments or premises under the EIT law, dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of Shares are ordinarily subject to China enterprise income tax at a rate of 20%. In accordance with the Circular on Issues Relating to the Withholding of Enterprise Income Tax by Chinese Resident Enterprises on Dividends Paid to Overseas Non-Chinese Resident Enterprise Shareholders of H Shares (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) issued by the SAT, such tax rate has been reduced to 10%.

If there is any change to applicable tax laws and regulations or in the interpretation or application of such laws and regulations, the value of your investment in our H Shares may be materially affected.

The approval, filing or other requirements of the CSRC or other PRC government authorities may be required under PRC laws, and we cannot predict whether we will be able to complete such procedures.

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down on Illegal Securities Activities in accordance with the Law (the “**Opinions on Securities Activities**”). The Opinions on Securities Activities emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies, and proposed to take effective measures, such as promoting the construction of relevant regulatory systems, to deal with the risks and incidents faced by China-based overseas-listed companies.

RISK FACTORS

Furthermore, on February 17, 2023, the CSRC released Trial Administrative Measures for Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Overseas Listing Trial Measures**”) and five relevant guidelines, which became effective on March 31, 2023. Pursuant to the Overseas Listing Trial Measures, PRC domestic companies which, after the overseas offerings and listings, offers subsequent securities in the same overseas market or conducts offering and listing in other overseas markets (the “**Future Offerings**”), shall complete the filing procedures and report relevant information to the CSRC.

Based on the foregoing, for Future Offerings after the proposed Listing, we are required to comply with the filing procedure of the CSRC. It is uncertain whether we can or how long it will take us to complete filings procedures in connection with Future Offerings. We may be subject to approval, filing or other requirements by other PRC government authorities under PRC laws in the future. Any failure to complete the relevant procedures may have an adverse effect on a Future Offerings.

RISKS RELATING TO THE GLOBAL OFFERING

No public market currently exists for our H Shares, and an active trading market for our H Shares may not develop or be sustained.

Prior to completion of the Global Offering, there has been no public market for our H Shares. We have applied to the Stock Exchange for the listing of, and permission to deal in, our H Shares. However, there can be no assurance that an active trading market for our H Shares will develop or be sustained after completion of the Global Offering. Pursuant to applicable PRC laws, all of the Shares in issue as of the date of this prospectus will be subject to a lock-up period of one year from the Listing Date. If an active public market for our H Shares does not develop following completion of the Global Offering, the market price and liquidity of our H Shares could be materially and adversely affected. The Offer Price is the result of negotiations between our Company, the Sole Sponsor and the Sponsor-Overall Coordinator (for itself and on behalf of the Underwriters), which may differ significantly from the market price at which our H Shares will be traded following completion of the Global Offering. The market price of our H Shares may drop below the Offer Price at any time after completion of the Global Offering.

The market price and trading volume of our H Shares may be volatile, which could result in substantial losses for investors who purchase our H Shares in the Global Offering.

The price and trading volume of our H Shares may be subject to significant volatility in response to various factors beyond our control, including the political uncertainties in Hong Kong and the general market conditions of securities in Hong Kong and elsewhere in the world. In particular, the business and performance of other companies engaging in similar business, and the market price of their shares, may affect the price and trading volume of our H Shares. In addition

RISK FACTORS

to market and industry factors, the price and trading volume of our H Shares may be highly volatile for specific business reasons, such as fluctuations in our revenue, earnings, cash flows and investments, changes in our pricing policies and expenditures, regulatory developments, demand for our services, unexpected business interruptions resulting from natural disasters or power outages, our ability to obtain or maintain regulatory approval for our operations, relationships with our suppliers, movements or activities of key personnel, or actions taken by competitors. Moreover, shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in China have experienced price volatility and fluctuations in trading volume in the past, and it is possible that our H Shares may be subject to fluctuations in price and volume not directly related to our performance but related to the overall political and economic conditions in Hong Kong, the PRC or elsewhere in the world.

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

Our Controlling Shareholders have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including, but not limited to mergers, privatizations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Immediately following the completion of the Global Offering (assuming the Offer Size Adjustment Option is not exercised), the Controlling Shareholder Group will continue to control in aggregate approximately 44.13% of our total share capital. Therefore, they will remain as a group of our Controlling Shareholders. The interests of our Controlling Shareholders might differ from the interests of our other Shareholders. In the event that our Controlling Shareholders cause us to pursue strategic objectives that conflict with the interests of our other Shareholders, our other Shareholders could be disadvantaged and their interests could be damaged. Any conflict of interest between our Controlling Shareholders and our other Shareholders may also materially and adversely affect aspects such as the decision and implementation of our business plans, which may in turn affect our operations and prospects.

We cannot assure you when, whether and in what form or amount we will pay dividends in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distributions of dividends shall be decided by our Board of Directors at their discretion and will be subject to the approval of the general meeting. A decision to declare or to pay dividends and the amount thereof depend on various factors, including, but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association and other constitutional documents, the PRC Company Law and any other applicable laws and regulations in China, market conditions, our strategy and projection for

RISK FACTORS

our business, contractual restrictions and obligations, taxation, regulatory restrictions and any other factors from time to time deemed by our Board of Directors as relevant to the declaration or suspension of dividends. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy.

Purchasers of our H Shares will experience immediate dilution, and a future significant increase or perceived significant increase in the supply of our H Shares in public markets could cause the market price of our H Shares to decrease significantly and/or dilute shareholdings of holders of our H Shares.

The Offer Price of the Offer Shares may be higher than the net tangible book value per Share immediately prior to the Global Offering. As a result, you and other purchasers of the Offer Shares in the Global Offering may experience an immediate dilution to a pro forma net tangible asset value of HK\$2.35 per H Share, based on the Offer Price of HK\$3.61 per H Share.

Facts, forecasts and statistics in this prospectus may come from various sources and may not be fully reliable.

Some of the facts, forecasts and statistics in this prospectus are derived from various publications of governmental agencies or publicly available sources and obtained during communications with various government agencies or independent third parties that our Directors believe are reliable. However, there can be no guarantee of the quality or reliability of such materials. Our Directors believe that the sources of the information are appropriate and have taken reasonable care in extracting and reproducing such information. They do not believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information from official government sources has not been independently verified by our Group, the Sole Sponsor or any other party involved in the Global Offering and no representation is given as to its accuracy or completeness. Due to the possibly flawed or ineffective sampling or discrepancies between published information and market practices or other reasons, such facts and statistics may be inaccurate or may not be comparable to official statistics. You should not place undue reliance on them. You should consider how much weight or importance such facts or statistics carry and should not place undue reliance on them.

RISK FACTORS

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

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

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Global Offering.

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not rely on such information.