You should carefully consider all of the information in this document and, in particular, the risks and uncertainties described below, before making an investment in our H Shares. We are affected materially by requirements and restrictions that arise under laws, regulations, judicial interpretations and government policies in nearly all aspects of our businesses in the jurisdictions where we operate.

The risks described below are not the only risks that may affect us or our Global Offering. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also adversely affect our business, results of operations, financial condition and growth prospects. If any of the possible events described below occurs, our business, results of operations, financial condition and growth prospects could be materially and adversely affected. The market prices of our H Shares could decline owing to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We are exposed to the market forces in the nickel industry.

We are exposed to the market forces in the nickel industry, including the current and expected demand and supply dynamics of nickel, which are primarily based on resources availability, discovery of new mines, stability of the global supply chain, competitive landscape of the nickel industry, end market demands for products in which nickel are used, technological developments, government policies and global and regional economic conditions.

Demand Side

The demand for our nickel products depends on factors such as the use of nickel in the end markets (including the NEV market and the stainless steel market), technological developments that could result in product or technological substitutions, changes in relevant laws, regulations and government policies, as well as general economic conditions. The demand in the end market in turns depend on the end products that our customers develop, produce and sell, the pace of industry acceptance and adoption of new technologies or standards. Any reduction in demand or activities in such industries could cause our customers to place fewer orders or reduce the volume of their orders, which could materially impact our business, financial condition and results of operations. If we fail to anticipate the industry trends of the end markets that we serve, our prospects may be materially and adversely affected.

The consumption of nickel increased from 1.0 million metal tons in 2016 to 1.4 million metal tons in 2021, representing a CAGR of 7.6% during the same period, driven by a number of end use applications, primarily including ternary battery and stainless steel, according to the CIC Report. However, we cannot assure you that the growth in demand of nickel in the end market can be sustained at a high rate, if at all, in the future. A number of factors which may be beyond our control can adversely and materially affect the growth in these end markets, including the introduction of new laws, regulations and policies, as well as the modification, amendment or repealing of existing ones, that can affect these end markets (including those that may have an indirect effect, such as policies on environmental protection and carbon emission reduction). For example, the Chinese government has introduced incentives to support the NEV industry, including a variety of benefits for NEV purchasers and subsidies for NEV manufacturers. However, if such a favorable policy changes or becomes abolished in the future, the NEV market's growth rate may be adversely and materially affected, which may in turn adversely impact the demand for nickel and nickel products. Similarly, if more cost-effective substitutes for nickel gain acceptance in the end markets, demand for nickel and nickel products may be adversely affected accordingly. If the growth in the end markets' demand for our nickel products slows down or stagnates, our business, results of operations, financial condition and prospects may be materially and adversely affected.

Supply Side

We primarily procure our laterite nickel ore from the Philippines and ferronickel from Indonesia. The current or expected supply of nickel and ferronickel may fluctuate, depending on resource availability in the relevant markets, and this may result in our inability to procure nickel ore and ferronickel with high quality at competitive prices in a stable and predictable manner. For example, Indonesia imposed export bans on laterite nickel ore in 2014 and 2020, respectively, as a result of which we could no longer procure laterite nickel ore from Indonesia, and had to increase our procurement of laterite nickel ore from the Philippines. Our revenue in 2020 was in turn negatively affected. See "Financial Information" for more details. In the future, the Indonesian government may further impose restrictive measures on the export of ferronickel, including imposing tariffs, and any of such restrictive measures may have an adverse impact on our ferronickel trading business. The Philippines also implemented stricter environmental policies on producers of laterite nickel ore in 2016 to reduce the mining and export of laterite nickel ore. If the Philippines government adopts restrictive policies on laterite nickel ore exports similar to those adopted by the Indonesian government, or introduces more restrictive environmental protection policies to reduce the extraction and export of laterite nickel ore, our trading business may be materially and adversely affected.

Furthermore, our laterite nickel ore trade may be affected by seasonality. Due to the unique geographical conditions of the Philippines, during the annual rain season from late October to late March, mining and shipping of laterite nickel ore from certain major nickel mining areas in the Philippines may be significantly reduced. Accordingly, the export of laterite nickel ore from the Philippines during the same period every year are usually reduced, which in turn will affect the supply and demand dynamics and the prices of laterite nickel ore. In addition, despite our advanced planning, sudden and unexpected spike in the demand for laterite nickel ore may rapidly deplete our stock, rendering us unable to meet customers' demand. In addition, in recent years, the global climate changes have made extreme weathers more frequent, larger in scale and stronger in intensity. In the event the annual rainy season in the Philippines becomes prolonged or otherwise results in an overall decrease in the supply of laterite nickel ore, our procurement and export activities may be adversely affected.

The majority of laterite nickel ore from the Philippines are produced by only a few suppliers. As we are operating in a competitive landscape where existing competitors and new market entrants are constantly seeking sources of nickel ore, there is no assurance for us to be able to continue to secure high-quality nickel ore at relatively competitive costs. See "— We depend on a limited number of core suppliers for the supply of a substantial portion of laterite nickel ore and ferronickel. Our inability to obtain these raw materials from these suppliers or any increases in the price of such raw materials could have a material adverse effect on our business, financial condition and results of operations." In addition, the discovery and successful exploration of new nickel mines by new or existing competitors may affect the global nickel supply and the global prices of nickel, which in turn adversely affect the price of nickel products and our business. For example, new nickel mines are being explored in Latin America and Myanmar, which could provide additional sources of nickel at competitive cost to our competitors. This may affect the global nickel ore supply, the global prices of nickel ore and nickel products, and ultimately our businesses. See "— We are exposed to market fluctuations of prices of nickel, nickel products and other related products."

We are exposed to market fluctuations of prices of nickel, nickel products and other related products.

Changes in current and expected supply and demand of nickel, nickel products and other related products impact their price trends. In recent years, market prices for nickel, nickel products and other related products experienced fluctuations in various degrees. For example, the recent increase in the market price for nickel was primarily as a result of the fluctuations in market demands caused by the continuous outbreak of COVID-19, which in turn led to the increase in prices of nickel products and other related products. In general, the market price for nickel maintained an upward trend with slight fluctuations from 2016 to 2021. According to CIC, the annual average price of nickel increased from US$9,595.2 per metal ton in 2016 to US$18,487.7 per metal ton in 2021. The average price of nickel was US$28,744.9 per metal ton during the six months ended June 30, 2022.

Any significant decline in the prices of nickel, nickel products and other related products could materially and adversely affect our business, results of operations and financial condition. Other factors that may impact nickel prices include global economic growth, government policies, changes to the cost of production, including energy, raw material and labor costs, changes to freight costs, changes to exchange rates, capital availability, stockpiling of commodities and technological developments. There is no assurance that a fall in prices of nickel will not occur, which in turn could lead to the decrease in prices of nickel products and other related products. These factors may materially and adversely affect our business, results of operations, financial condition and prospects in various ways, including but not limited to the following:

- a significant or sustained reduction in nickel price could result in customers' unwillingness to honor their contractual commitments to purchase laterite nickel ore, ferronickel and other nickel products at pre-agreed pricing terms;

- a significant or sustained reduction in prices of nickel, nickel products and other related products could result in a reduction in our sales, profit and earnings;

- a significant or sustained reduction in nickel price could directly or indirectly result in write-downs to our assets, including our inventory and production lines;
- the production of our ferronickel and nickel-cobalt compounds may be curtailed or suspended if they are no longer economically viable; and
- a significant or sustained reduction in nickel price could make it more difficult for us to obtain financing and may increase the financing costs for our businesses.

On the other hand, in the event of a significant or sustained increase in prices of nickel, nickel products and other related products, customers may seek end product alternatives. For example, customers may choose alternative NEV batteries or other more affordable energy solutions to ternary battery, or increase the proportion of nickel resources acquired or extracted from the recycling and reuse of nickel products, all of which may reduce the demand for our nickel products. Consequently, the sales volumes of our nickel products may be materially and adversely affected. Even if our customers cannot find end product alternatives, they may still request us not to raise the price of our products. In the event we cannot transfer the high nickel price to our customers, our profit margin may be adversely affected. Any occurrence of the foregoing could materially and adversely affect our business, results of operations, financial condition and prospects.

The Russia-Ukraine tensions have accelerated in February 2022, following which countries and regions, including the U.S. and European countries, imposed various forms of economic sanctions on Russia, Russian entities and individuals, such as ban on the export of dual-use goods, Russian flights and all Russian oil and gas imports. In relation to the recent Russian-Ukraine conflict, since early March 2022, there has been an unprecedented price spike in LME nickel price, exceeding US$50,000/ton. The LME nickel price fluctuated within the price range of US$22,900 per ton to US$35,000 per ton in the second quarter of 2022. As a result, we have incurred losses, and may continue to incur losses, in our futures products. See "— Our results of operations and financial condition may be adversely affected by our purchase of derivative financial instruments. We may be exposed to fair value changes for financial assets at fair value through profit or loss" and "Business — Risk Management — Nickel Product Price Risk Management" for more details. If the LME nickel price continues to surge, we may incur additional losses in our futures products and our business and results of operations may be adversely affected.

We face risks in relation to our current and future production projects.

We face a number of risks, including the delayed or prolonged construction progress and project overspending, related to our current and future projects of nickel production, including the HPAL and RKEF projects currently under construction, in collaboration with our local partner in Indonesia. As of the Latest Practicable Date, for the HPAL project, we have two HPAL production lines in operation and another four HPAL production lines under construction and planning. We are also constructing, or will construct, nickel sulfate and cobalt sulfate production lines for the HPAL project. The production lines of the RKEF project, which we have jointly developed with our Indonesian Partner, have commenced/are expected to commence operation between the fourth quarter of 2022 and July 2024.

Our investments on the Obi Island are subject to a number of risks. Construction of production lines may take longer than scheduled as a result of various reasons, including the change of laws, regulations and policies by the Indonesian or local governments, the resurgence of COVID-19 (including its variants), any adverse change in the diplomatic relationship between China and Indonesia, and local protests and disputes. For example, the Indonesia government has imposed, and may continue to impose from time to time, quarantines and/or restrictive measures in response to the occurrence and resurgence of the COVID-19 outbreaks, including those caused by its variants. As a result, we were, and may continue to be, unable to transport to the Obi Island certain raw materials, machinery and equipment and personnel as required by our construction schedule, which has resulted in, and may continue to cause in the future, delays in our construction progress and increase in the cost of construction for both of the HPAL and RKEF projects.

Even when our construction of production lines for the HPAL and RKEF projects is complete, we cannot assure you that the ramp-up of production capacity and actual output of the nickel-cobalt compounds can meet our expectation as scheduled. In the event the increase in revenue from the production lines we constructed on the Obi Island fails to meet our expectation or it cannot cover the additional depreciation and operational expenses we expect to incur associated with these production lines, our profitability may be adversely affected.

Further, we have a significant number of Chinese employees based on the Obi Island and are in the process of hiring more local and Chinese employees to work in our manufacturing facilities as more production lines are put into operation. We cannot assure you that we can timely find a sufficient number of employees who can meet our requirements and maintain the necessary labor permits. If we face any shortage in manpower, our construction progress and production may be materially and adversely affected.

In addition, the construction and operation costs of projects on the Obi Island may be significantly higher than what we have expected. In particular, it is not uncommon in the past for other nickel production projects utilizing the HPAL process to have the costs and expenses of their construction and operation exceed — sometimes significantly exceed — what were planned previously. We may overestimate our abilities to tackle the technical challenges and difficulties involved in constructing and operating commercial-scale HPAL and RKEF production lines and we may also underestimate the shortage of local infrastructure, including utilities, roads, wharfs, and other supporting facilities on the Obi Island, resulting in overspending for our projects on the Obi Island. In addition, we may continue to invest in other nickel production projects in the future, the success of which depends on a number of reasons that may be beyond our control, including the construction progress of third-party construction service providers, whether we could obtain relevant permits, licenses and approvals from the relevant government authorities in a timely manner, if at all, local laws and regulations applicable to such projects, and availability of, and our accessibility to, government support (including subsidies and tax deductions). If we are unable to construct and operate our existing or future production lines as planned, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

We are subject to risks in connection with planned or future investments or acquisitions and may encounter difficulties in integrating the acquired assets into our existing business operations.

As part of our expansion plan, we intend to continue to seek investment opportunities and acquire certain assets when suitable opportunities arise in the future. We do not have specific timetables for these plans and we cannot be certain that we will be able to identify additional suitable investments or acquisition candidates available for sale at reasonable prices to consummate any investment or acquisition or investment. In addition, we are subject to risks related to such investments and acquisitions and may encounter various risks in connection with integrating acquired assets into our existing business operations, many of which may be beyond our control.

Investments and/or acquisitions may expose us to a number of risks, undisclosed issues or legal liabilities, such as diversion of management attention from our existing business, potential loss of our key employees or the key employees of any business that we acquire, unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the investments and/or acquisitions, and decline in the value of invested/acquired assets or companies. These risks could cause us not to realize the benefits anticipated to result from the investments or acquisitions, and could have a material adverse effect on our ability to grow our business, financial condition and results of operations.

We are also exposed to various risks in connection with integrating acquired assets into our existing business operations. In November 2021, we indirectly acquired an additional 18% interest in HPL, a project company incorporated in Indonesia that owns three production lines under phases I and II of the HPAL project, and, as of the Latest Practicable Date, we held a total of 54.9% interest in HPL. We started to present the financial performance of HPL on a consolidated basis from the acquisition completion date. While we have been responsible for the design, construction and operation of the production lines under phases I and II of the HPAL project, as we became the controlling shareholder of HPL following the acquisition, we may need to make adjustments to certain aspects of its business operations as necessary. We cannot assure that that these changes will not affect the business operations of the production lines under phases I and II of the HPAL project during the transition period. In addition, the integration of HPL into our existing operations may be subject to unforeseeable delays or even the risk of failure due to various reason which may be beyond our control, including, among others, regulatory changes, discovery of unforeseen or hidden liabilities, and unforeseen difficulties in integrating HPL with our existing operational infrastructure. Such delays or failure in integration HPL may increase our integration costs, strain our production capacity at other locations, decrease our production efficiency, cause delays in delivery of customer orders, and divert our management attention and resources from our existing business. Our existing operations may also not be able to generate sufficient revenues to offset the costs and expenses in connection with the delays in, or failure of, integrating our acquisitions. Any difficulties encountered in the acquisition and integration process may have an adverse effect on our ability to manage our business and harm our results of operations, financial condition and prospects.

Our businesses and operations require significant capital resources on an ongoing basis and we recorded net current liabilities and negative cash flows from operations during the Track Record Period.

The operation of our business requires substantial capital and other long-term expenditures, including expenditures for maintaining processing and manufacturing plants, machinery and equipment in our Jiangsu Facilities in China and our two HPAL production lines that have been put into operation on the Obi Island, Indonesia. We further need to invest a significant amount of capital expenditures for constructing our remaining HPAL production lines and RKEF production lines on the Obi Island and for maintaining these production lines once they are put into operation. In the future, we may further from time to time require significant capital to build, maintain, operate and expand production facilities, purchase machinery and equipment, and develop new technologies and products. In 2019, 2020, 2021 and the six months ended June 30, 2022, our capital expenditures, comprised of (i) prepayments for property, plant and equipment, (ii) interests in associates, and (iii) interests in a joint venture, were RMB498.5 million, RMB686.8 million, RMB661.6 million and RMB1,680.0 million, respectively.

We recorded net current liabilities of RMB163.3 million, RMB275.8 million as of December 31, 2019 and 2020 and we recorded net current assets of RMB1,147.4 million and RMB2,202.3 million as of December 31, 2021 and June 30, 2022, respectively. We had net cash used in operating activities of RMB361.5 million in 2019. Please see “Financial Information — Working Capital” and “Financial Information — Liquidity and Capital Resources” for details. Having net current liabilities could constrain our operational flexibility, expose us to liquidity risk and adversely affect our ability to expand our business. When we construct new production facilities or expand production capacities, we expect to fund the related financial commitments and other capital and operating expenses from a combination of cash on hand, cash generated from operations, banking facilities and the proceeds from this Global Offering. We cannot assure you that we will be able to generate sufficient cash from our operations or obtain the necessary financing at interest rates and on other terms that are reasonable to us or consistent with our expectations, if at all. To the extent we cannot finance our operations, expansions or acquisitions at reasonable costs, or at all, in the future, our business may be harmed. In addition, our expansion may require us to procure more raw materials, and as a result, during certain quarters we may incur higher working capital needs that may affect our working capital operation. We cannot assure you that we will not experience any higher working capital needs in the future, and our business, financial position, results of operations and prospects and working capital may be affected.

Our financial performance and results of operations may be materially and adversely affected by export bans and other trading restrictions. In particular, our business operations and financial performance were adversely affected by the Indonesian government’s export ban on laterite nickel ore.

For our nickel product trading business, we procure laterite nickel ore primarily from the Philippines and ferronickel from Indonesia. For our nickel product production business, we procure laterite nickel ore, the raw material for our self-produced ferronickel, primarily from the Philippines and New Caledonia. The current or expected supply of nickel ore and ferronickel may fluctuate, depending on resource availability in the relevant markets, which in turn may be materially affected by governments policies on trading and export of the relevant products. This may result in our inability to procure nickel ore and ferronickel with high quality at competitive prices, with a sufficient quantity and in a stable and predictable manner.

In particular, our financial performance and results of operations in 2020 were adversely affected by the Indonesian government's export ban on laterite nickel ore starting January 1, 2020. In 2019, in terms of volume, 34.8% of nickel ore for our trading business and 55.5% of nickel ore for our ferronickel production were procured from Indonesia. As a result of the export ban, we could no longer procure nickel ore from Indonesia, and had to increase our procurement of nickel ore from the Philippines, New Caledonia and other countries and regions. As it took some time for us to secure a significantly higher volume of nickel ore in these other countries, our business operations and financial performances for both our trading and production businesses were negatively affected. See "Financial Information" for more details.

In addition, we also procure ferronickel for our trading business from Indonesia. For our production business, the HPAL project on the Obi Island has commenced producing nickel-cobalt compounds, and phase I of the RKEF project on the Obi Island will commence producing ferronickel between October and December 2022. We currently sell, and expected to sell, our products primarily to customers based in China. To the extent the Indonesian government further imposes restrictive measures on the export of nickel products produced using laterite nickel ore, including imposing tariffs, export quota or an outright export ban, our trading and production businesses may be materially and adversely affected. As a result, with respect to our trading business, we may need to procure ferronickel from other countries and regions, which may reduce our price-competitiveness and thus lower our revenue and profitability of our ferronickel trading business. With respect to the ferronickel and nickel-cobalt compounds under our production business, such restrictive measures may require us to produce the downstream products of ferronickel and nickel-cobalt products, which in turn may result in us incurring additional capital expenditure for the construction of the corresponding facilities. Any occurrence of the foregoing may materially and adversely affect our business operation, financial performance and prospects.

Furthermore, we cannot assure you that the Filipino government will not impose a similar export ban on laterite nickel ore in the future, in which event we may need to increase our procurement of laterite nickel from other countries and regions, such as Turkey, New Caledonia and Guatemala. We may not be able to procure laterite nickel ore from suppliers in these countries and regions with a sufficient quantity or on such terms favorable to us, if at all. Moreover, compared to the Philippines, these countries and regions are farther away from China where most of our customers are located, and we may need to incur higher transportation costs, which may reduce the price-competitiveness of our products. If this is to happen, our financial performance and prospects may be adversely affected.

More generally, our trading and production businesses, to the extent cross-border procurement and sales of goods and products are involved, may be affected by adverse changes and developments in trading restrictions, including both the restrictive measures by the exporting countries and trade protectionism and trade barriers by the importing countries. If such measures are introduced or imposed by the governments of countries and regions where our suppliers and customers are located, our overall trading and sales volume may be materially and adversely affected. As such, the financial performance of our businesses may be materially and adversely affected. Restrictive trade measures and trade protectionism may also bring volatility in the financial markets, which may slow down economic activities in our major markets and in turn adversely affecting our financial performance and business strategies in these markets.

We face competition in the nickel industry.

We trade laterite nickel ore (the raw material for the production of ferronickel and MHP) and ferronickel (used for the production of stainless steel); we primarily produce ferronickel, as well as MHP (mainly used in the production of NEV batteries).

We compete with a number of domestic and international companies for the relevant products. For our laterite nickel ore and ferronickel, we primarily compete with nickel product trading companies, while for our nickel-cobalt compound products, we primarily compete with other nickel-cobalt compound producers. Many of our competitors may have well-established market presence and reputation, more effective financing channels on the capital market, greater expertise and abilities in R&D, sales and marketing, establishing strategic partnerships with other companies throughout the industry value chain, recruiting, retaining and managing capable technical staff and talent, maintaining more effective communication channels with relevant regulatory authorities, and reaching a broader base of customers than we do. Mergers and acquisitions in nickel products trading and production industries may result in even more resources being concentrated among a small number of our competitors. If we fail to compete effectively, we may no longer be able to maintain our current market position, especially our market leadership position for nickel ore trading, in the future. As a result, our business, results of operations, financial condition and growth prospects may be materially and adversely affected.

In addition, our competitors, suppliers and customers may seek to extend their reach throughout the industry value chain, which in turn could intensify the competition in our industry. For example, some of our competitors and customers have started to construct nickel production projects utilizing the HPAL and/or RKEF processes in Indonesia. The products we plan to produce from our production lines may face direct and additional competition when our competitors' production lines are put into operation. Competition could have an adverse impact on the demand for, and pricing of, our nickel products, which in turn affects our business, results of operations, financial condition and growth prospects.

We are subject to extensive environmental, chemical manufacturing, health and safety laws and regulations and production standards, and our compliance with these laws, regulations and standards may be onerous and costly.

Our business operations are affected by laws and regulations, administrative determinations, court decisions and similar constraints, especially the extensive environmental, chemical manufacturing, health and safety laws and regulations and stringent production standards of nickel products promulgated by the PRC government and the governments of overseas jurisdictions in which we operate, such as Singapore, Indonesia and the Philippines. We are also required to comply with the restrictions and conditions imposed by various government authorities in order to conduct our business, including satisfying any of the conditions required for the obtaining, maintenance and renewal of our approvals, licenses and certificates.

We are required to comply with the extensive environmental laws and regulations relating to air and water quality, waste management and public health and safety in the PRC and Indonesia and these laws and regulations are highly complex. For the construction and operation of production lines on the Obi Island, we must obtain, and have obtained, the relevant approval for environmental impact analysis reports and environmental acceptance approval of our facilities under construction by relevant Indonesian authorities. Our production facility on the Obi Island is also subject to certain environmental, waste discharge, tailings, health and safety laws and regulations, as well as a number of licenses and annual inspections, including Environmental Feasibility Decree (*Keputusan Kelayakan Lingkungan Hidup),* Environmental Management Plan and Environmental Monitoring Plan (*Rencana Pengelolaan Lingkungan Hidup dan Rencana Pemantauan Lingkungan Hidup* or RKL-RPL)*,* Disposal of Wastewater to the Sea License (*Izin Pembuangan Air Limbah ke Laut*), Occupational Health and Safety Certificates, and Lifting Instrument Certificates. For our operation of production lines in our manufacturing facilities located in Suqian, Jiangsu Province (the "**Jiangsu Facilities**"), we are also subject to Chinese environmental, waste discharge, tailings, health and safety laws and regulations, as well as a number of licenses and annual inspections, including permit for operations of dangerous wastes and pollution discharge permit. Our business operation is also required to complete the registration form for foreign trade operators. If we fail to obtain any of the necessary licenses, approvals or permits, complete the required annual inspection, or otherwise meet the required conditions for maintaining or renewing these licenses, approvals and permits, the relevant authorities may suspend the construction and/or operation of our production facilities and impose a fine on us. As a result, our business, results of operations, financial condition and growth prospects may be materially and adversely affected.

As more production lines under the Obi projects commence production and achieve full-scale operation, our nickel product production business is expected to be an increasingly more important business segment going forward. Accordingly, we expect to experience higher emission of wastes and require more consumption of energy. See "Business — Environmental, Occupational Health and Safety — Environmental Protection and Climate-related Matters — Metrics and Targets" for more information, including our emissions and energy consumption during the Track Record Periods. In particular, as a result of the specific techniques and processes utilized in the HPAL process, a significant amount of slags will be generated, which may be perceived by the local governments in Indonesia as having relatively high environmental impacts. The RKEF process also requires a significant amount of energy. We cannot assure you that the Indonesian government, in response to the growing domestic nickel product production industry, will not impose more stringent environmental laws and regulations in the future, including adopting targeted measures to deal with the wastes generated from projects utilizing the HPAL process and the high energy consumption of projects utilizing the RKEF process. As a result, we may be required to incur substantial additional costs, including but not limited to those in connection with constructing additional facilities for storage and further processing slags generated by the HPAL project as well as installing more energy-saving equipment and machinery for the RKEF project, in order to remain compliant with the relevant Indonesian laws and regulations.

Separately, we are also subject to risks related to compliance with local labor laws and regulations in Indonesia. We have adopted internal policies to ensure illegal labor practices, including forced labor and child labor, will not occur in our production facilities in China and Indonesia. We also have implemented relevant measures to ensure the situation of child labor and forced labor does not exist among our suppliers. See "Business — Environmental, Occupational Health and Safety — Occupational Health and Safety and Corporate Policy — Compliance with Labor Laws and Regulations" for more information. However, we cannot assure you that the Indonesian government will not adopt more stringent labor laws and regulations in the future and we accordingly are required to incur substantial additional costs to remain compliant with these laws and regulations. Further, despite our implemented measures, our suppliers may still employ forced labor and child labor, which may not only expose us to negative publicity and reputation risks, but also potentially jeopardize the sales of our products to downstream customers. Any occurrence of the foregoing could materially and adversely affected our business, results of operations, financial condition and growth prospects.

In addition, the environmental, chemical manufacturing, health and safety laws and regulations, administrative determinations and court decisions in the PRC, Singapore, Indonesia, the Philippines and other jurisdictions to which we are subject may continue to evolve. The relevant authorities may adopt stricter standards and enforcement, remove certain prevailing exemptions, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed production facilities, as well as a heightened degree of responsibility for companies and their officers, directors and employees. Any changes or amendments to such laws or regulations may cause us to incur additional compliance costs (including financial resources and other resources to establish effective internal control and compliance programs to address the legal and regulatory changes), capital expenditures and costs incurred to upgrade or modify our facilities, which we may not be able to pass on to customers, or other obligations or liabilities which could decrease our capital and our ability to pursue developments in other areas. This in turn could result in delay in, or suspension of, our trading, production and other business operation. Any such adverse changes in Indonesia's industry policy could adversely and materially effect on our business, results of operations, financial condition and growth prospects.

The Indonesian government may expand the scope of the nickel ore export ban to include downstream nickel products, or impose tariff or adopt other restrictive measures on the export of such products, which may materially and adversely affect our business.

The Indonesian government's export ban on nickel ore, which became effective on January 1, 2020, has not been lifted or relaxed as of the Latest Practicable Date. According to Imran Muntaz & Co., our Indonesian legal advisor, the export ban is limited to nickel ore and does not apply to downstream products produced from nickel ore, such as ferronickel and nickel-cobalt compounds; the export ban also does not restrict us from procuring nickel ore from local suppliers for purposes of producing downstream products in Indonesia. See "Business — Indonesian Government's Export Ban on Laterite Nickel Ore" for more information on the export ban.

However, we cannot assure you that the Indonesian government will not impose additional restrictive measures that may limit or prohibit us from exporting the nickel products produced by the Obi projects, if at all. For example, the Indonesian government may in the future impose export ban on certain downstream nickel products produced by the Obi projects, including ferronickel, MHP, nickel sulfate and cobalt sulfate. As a result, we may not be able to export such products at all and may need to find domestic buyers in Indonesia as an alternative. However, the relevant downstream industry in Indonesia at that time may not be sufficiently developed, and accordingly there may not be sufficient demand for our products. As a result, our nickel product production business could be materially adversely affected.

Alternatively, we may have to further process these nickel products and manufacture downstream products in order to export them without violating the relevant export restrictions. However, under such circumstances, we may be required to incur significant additional capital expenditures for the construction of the relevant manufacturing facilities and further incur additional costs and expenses in relation to the operation of these facilities, while there is no assurance that we can acquire sufficient market share and customer demand for the downstream products to be manufactured to offset these additional costs and expenses. In addition, as we may not have the relevant experience or expertise in the business operation related to such downstream products, we may incur additional expenses, including from hiring and training experienced personnel for the relevant production processes. If any of the above is to happen, our financial performance and profitability could be materially adversely affected.

In addition, the Indonesian government may also adopt other less restrictive measures for the nickel products produced by the Obi projects, including imposing tariff on the export of such products. If this is to happen and we cannot pass on the additional costs and expenses to our customers, our profit margin of the relevant products will be adversely affected.

Any occurrence of the foregoing hypothetical adverse changes in Indonesia's export policies could materially and adversely affect our business, results of operations, financial condition and growth prospects.

Our production operations are exposed to production safety, production difficulties and other risks that could damage our reputation, subject us to liability claims and result in substantial costs.

Our production processes typically require a high-temperature and/or high-pressure environment. While we believe we have adequate systems of safe production and related training, we cannot assure you that accidents or other risk related to workplace injuries and occupational safety will not arise during our production activities or during the construction of production facilities on the Obi Island. If a workplace accident occurs, we will not only be required to pay compensations and damages, but also be subject to penalties from regulatory authorities, including fines, suspension of relevant operation and construction, and even revocation of permits, licenses or approvals that are required for our operation and construction. During the Track Record Period, Jiangsu Wisdom, our subsidiary that owns and operates our Jiangsu Facilities, was fined by the relevant regulatory authorities for violating certain laws and regulations related to production safety, with RMB123 thousand in total. We cannot assure you that we will not be fined and penalized for non-compliances with laws and regulations related to production safety in the future.

In addition, our operations may also be subject to production difficulties such as production capacity constraints, mechanical and systems failures, construction and upgrade delays and delays in the delivery of machinery and equipment (including spare parts for their repair), any of which could result in suspension of production and reduced output. Scheduled and unscheduled maintenance programs may also affect our production output. In particular, the HPAL process is a technically complex process that involves numerous production steps, many of which need to be carried out under a high-temperature and high-pressure environment with the presence of concentrated sulfuric acid. Certain production steps require the operator to adjust the parameters of the machines and equipment in a timely manner according to the production parameters and status of reaction intermediates, which require relevant experience and involve human judgment. Any misjudgment or untimely adjustment may cause damages to the crucial machine and equipment involved in the HPAL process. In severe cases, we may need to halt the production for repair, which may take as long as several months and result in our inability to produce and sell nickel-cobalt compounds produced from these production lines. Any significant manufacturing disruption could adversely affect our ability to produce and sell nickel products, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In general, as part of our production operations, we are engaged in certain inherently risky and hazardous activities, including, among other things, use of heavy machinery and, handling of hazardous chemicals. As a result, we are subject to risks associated with these activities, including geological catastrophes, toxic gas and liquid leakages, equipment failures, industrial accidents, fires and explosions. These risks and hazards can result in personal injuries and fatalities, damage to or destruction of properties or production facilities, and pollution and other environmental damages. Any of these consequences, if significant, could result in business interruption, legal liability and, damage to our reputation and corporate image. In addition, we may be subject to claims resulting from subsequent use by the customers or other third parties of the facilities and the products we produce.

We generally seek to lower our exposure to potential claims associated with our businesses through contractual limitations on liability, indemnities from customers and suppliers, and insurance. These measures, however, may not always be effective due to various factors, many of which may be out of our control. The occurrence of any of these risks may harm our business operations and reputation, which could inhibit our ability to take on other contracts or otherwise grow our businesses.

Our trading and production businesses are subject to transportation-related risks.

Our trading and production businesses are subject to transportation-related risks. Our production operations are further dependent on access to adequate transportation channels. We rely on a combination of sea and road transportation both in China and overseas to deliver the products we procure and produce to customers. In particular, we are responsible for arranging the transportation by sea required for our trading and production businesses, including transporting the laterite nickel ore and ferronickel we purchased from suppliers and the ferronickel and nickel-cobalt compounds we produce. However, there can be no assurance that the existing or planned transportation systems will be sufficient to meet our transportation requirements. Any shortage, disruption or limitation of transportation capacity may limit the volume of products delivered to our customers and may cause us to accumulate inventories and scale back production. Due to certain special features of laterite nickel ore and other nickel products, to transport these products by sea requires ships of specific designs, while there are only a limited number of such ships and suppliers available in the market. We may not be able to secure a sufficient number of ships in a timely manner to transport our products to meet the demand of our trading and production businesses on schedule for reasons beyond our control. This situation has been further exacerbated by the COVID-19 outbreak, including the quarantine and other restrictive measures imposed by ports around the world. For more information, see "— Our business operations and financial performance have been and may continue to be affected by the COVID-19 pandemic." Any disruption in the transportation and logistics of our business may in turn damage our business reputation and adversely affect our business, financial condition and results of operations.

With respect to road transportation, our ability to deliver the products we procure and produce to our customers may be adversely affected by the availability and capacity of the transportation network and the rise in transportation costs, including the reduction or disruption in the transportation capacities caused by events such as earthquakes, serious accidents on highways, labor strikes, and traffic congestions during holiday seasons. Any of these occurrences may cause material and adverse effect to our business, financial condition and results of operations.

In 2019, 2020, 2021 and the six months ended June 30, 2022, our transportation costs recognized in cost of sales amounted to RMB1,108.6 million, RMB684.9 million, RMB1,758.7 million and RMB899.8 million, respectively. In addition, the COVID-19 outbreak has caused, and is expected to continue to cause, a significant increase in shipping costs. Risks that we may not be able to anticipate, including the congestions at major ports and/or canals around the globe may exacerbate the risks that we are already exposed to, further reducing the availability of ships at an economically viable cost. This in turn could adversely and materially affect our abilities to procure and deliver raw materials and products to our customers on time, thereby having a material adverse effect on our business, financial condition and results of operations.

Our historical results of operations and financial performance may not be indicative of our future performance.

Our business has grown rapidly since our inception, but we may not be able to effectively manage our growth in the future for reasons that may be beyond our control. The price of nickel has been increasing in the past few years and such an increase may not sustain in the future. The decline of nickel price will have an impact on our revenue and net profit. In addition, the increase in nickel price in recent year was partly resulted from the introduction of a number of favorable policies by the Chinese government to the NEV market, one of our end markets. We cannot assure you that the NEV market will continue to enjoy the benefits brought by these favorable policies in the future. Accordingly, our historical results of operations and financial performance may not be indicative of our future performance, and we cannot assure you that our business will be able to maintain the growth rate we achieved in the past.

Managing our growth will require significant expenditures and allocation of resources. To manage our growth and maintain profits, we expect our costs and expenses to continue to increase in the future. We will also need to expand, train, manage and motivate our workforce and manage our relationships with suppliers, customers and other business partners. We also expect to continue to invest in our production facilities as well as research and development. In particular, we are in the process of building multiple production lines under the HPAL and RKEF projects on the Obi Island, Indonesia, which will require significant capital expenditures. We also expect to continue our investment in R&D activities, including our collaboration with third party research institutes and organizations, to improve and upgrade the technology and techniques employed in our production processes. In line with the expansion of our production activities in the future, our cost for procuring raw materials and expenses related to our R&D activities and the operation and maintenance of our production lines are also expected to increase. All of these endeavors involve risks and will require substantial management efforts and skills and significant additional expenditures, which could strain our ability to improve our operational, human resources, financial and management capabilities. If our costs and expenses grow faster than our revenue, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Our trading business has a relatively low profit margin compared to our production business, and our profitability is affected by changes in our product mix.

During the Track Record Period, our nickel product trading business contributed a majority of our revenue. Nickel product trading generally has lower profit margin compared to nickel product production, which requires complicated production techniques, expertise and know-hows. In 2019, 2020, 2021 and the six months ended June 30, 2022, the gross profit margin of our nickel product trading business was 8.8%, 9.6%, 8.4% and 10.3%, respectively, compared to 16.8%, 23.0%, 25.6% and 51.0%, respectively, for our nickel product production business. In particular, for our nickel product trading business, the gross profit margin for laterite nickel ore was 10.3%, 14.3%, 13.8% and 14.5% in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, and the gross profit margin for ferronickel was 3.4%, 1.7%, 2.8% and 5.3% in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. As more production lines under the HPAL and RKEF projects commence production, our nickel product production business is expected to contribute a significantly higher portion of our revenue, which is expected to increase our overall profitability. However, our trading business is expected to continue to contribute a significant portion of our revenue going forward and as a result, will continue to cast a negative impact on our overall gross profit margin.

In addition, the profitability of our trading business may be affected by the fluctuation in the price of nickel products we trade. For example, if we cannot pass down the increase in our procurement prices of nickel ore and ferronickel to our customers, the profitability of our trading business may be adversely affected.

Accordingly, our overall profitability has been, and will continue to be affected by, changes in our product mix. See "Financial information — Factors Affecting Our Financial Condition and Results of Operations — Fluctuation in Nickel Prices and the Supply and Demand Dynamics of Nickel Products" and "— Expansion of Production Capacity and Diversification of Product Portfolio" for more details.

Our nickel product production business is expected to contribute a significantly higher portion of our revenue going forward, particularly with the acquisition of HPL. This increased emphasis on our nickel product production business may have a material impact on our results of operations and expose us to additional risks and challenges.

In 2019, 2020, 2021 and the six months ended June 30, 2022, nickel product trading contributed 69.5%, 64.5%, 70.4% and 42.1% of our total revenues, respectively, whereas nickel product production contributed 25.2%, 21.2%, 19.7% and 49.6% of our total revenues, respectively. With the acquisition of HPL and the production lines under the HPAL and RKEF projects gradually commencing operation, our nickel product production business is expected to contribute a significantly higher portion of our total revenue going forward. This increased emphasis on our nickel product production business will also lead to (i) changes in our cost structure, including but not limited to an increase in costs of raw materials and ancillary materials used in nickel product production, increased depreciation of production equipment, and increased labor costs as we recruit additional staff to support our production and related activities, and (ii) changes in our asset-liability profile, including an increase in property, plant and equipment related to our production facilities, and increased borrowings in as the construction of our nickel product production projects continues. All of the above could expose us to additional risks and challenges.

Starting our business as a nickel product trading company, such increased emphasis on our nickel product production business may expose us to a variety of other risks and challenges, including but not limited to:

- we may lack the experience to maintain and expand the profitability of our nickel product production business;
- we may face uncertainties associated with the expansion of our business and we may fail to manage our growth effectively;
- as a substantial portion of our nickel product production operations are based on the Obi Island, Indonesia, we may not be able to effectively manage our overseas operations as much as we manage our operations in China, and are exposed to potential operational regulatory and other risks, see "— Risks Relating to Our Overseas Operations" for more details;
- as we currently rely on our Indonesian Partner to supply nickel ore for our Obi projects, any deterioration of our relationship with our Indonesian Partner may adversely affect our ability to procure a stable supply of nickel ore at competitive prices;
- we may not be able to establish and maintain relationship with a sufficient number of customers for our nickel product production business; and
- if the downstream demand in the NEV industry do not grow as expected, demand for our self-produced nickel-cobalt compound products may also be adversely affected. See "— Factors that impact the NEV industry may materially and adversely affect our business, financial condition and results of operations" for more details.

Our relatively short operating history in this business segment also provide limited insight to investors and make it difficult to evaluate our business and prospects.

Factors that impact the NEV industry may materially and adversely affect our business, financial condition and results of operations.

Our nickel-cobalt compound products are raw materials for the production of ternary battery, a critical component in the manufacturing of NEVs. As a result, we are indirectly subject to factors that may impact the demand of NEVs and the NEV industry as a whole. As revenue from our nickel-cobalt compound product production is expected to constitute a significantly higher portion of our total revenue going forward, factors that impact the demand of NEVs and the NEV industry as a whole may materially and adversely affect our business, financial condition and results of operations.

First, any adverse change in the government policies toward the NEV market may adversely affect our business. The NEV market has historically benefited from government subsidies, economic incentives and government policies that support the growth of NEVs. For example, qualified purchasers can enjoy subsidies from China's central government and certain local governments. In certain cities, quotas that limit the purchase of internal combustion engine vehicles do not apply to electrical vehicles (a type of NEV), thereby incentivizing customers to purchase electric vehicles. However, these policies are subject to certain limits as well as changes and such limits and changes may not be favorable to the NEV market. For instance, the subsidies for NEV purchases have been and will likely be continuously lowered and the total number of NEVs in China that will be entitled to subsidies may also be capped. Governments may also reduce the grants, subsidies and other forms of economic and regulatory incentives NEV manufacturers are entitled to. See "— New legislations or changes in the PRC regulatory requirements regarding the end markets of our products, particularly the NEV market, may affect our business operations and prospects" for more details. Any of the foregoing could materially and adversely affect price competitiveness of NEVs, reduce the demand for NEVs and ultimately lead to the decreased demand of raw materials required for the manufacturing of NEVs, including the ternary battery and in turn, our nickel products.

Second, the continuing shortage in the supply of raw materials for the production of NEVs may indirectly result in the decreased demand of our products. The manufacturing of NEVs involves a large number of parts and components. The shortage in the supply of any of the critical parts and components that do not have readily available alternatives or substitutes may limit the overall production volume of NEVs. For example, since October 2020, the supply of semiconductors used for automotive production has been subject to a global shortage. Certain NEV manufacturers have been adversely affected and there is no assurance that the NEV manufacturers, including those that have not been adversely affected thus far, will be able to obtain sufficient number of semiconductors and semiconductor-contained components at reasonable cost in the future. To the extent there is a prolonged shortage in the supply of semiconductors, NEV manufacturers may choose to limit their NEV production, which in turn could result in a decreased demand of ternary battery. Accordingly, the demand for our nickel products may be materially and adversely affected.

Lastly, the NEV industry is experiencing rapid technological changes and innovations, some of which may adversely affect the demand of our nickel products. Ternary battery is currently the mainstream type of battery used in the production of NEVs. NEV manufacturers and the upstream battery suppliers are continuously developing new technologies to enhance battery's performance and reduce its cost, as well as looking into alternative technological pathway and materials for the production of batteries. However, we cannot assure you that such technological developments and innovations, while beneficial to the NEV industry, may always lead to the increase in demand for our nickel products. In fact, some technological breakthroughs may reduce the demand of nickel products in the production of battery. For example, the lithium iron phosphate battery, an alternative type of battery used in the production of NEVs, does not contain either nickel or cobalt. Any technological development and innovations that lead to the adoption of low-nickel or no-nickel battery can materially and adversely affect the demand of our nickel products.

Accordingly, any occurrence of the foregoing may materially and adversely affect business, results of operations, financial condition and prospects.

New legislations or changes in the PRC regulatory requirements regarding the end markets of our products, particularly the NEV market, may affect our business operations and prospects.

Our products are used in the production of, or are incorporated into, final products that are sold into a number of end markets which include the NEV market and the stainless steel market. New legislations or changes in the PRC regulatory requirements regarding these end markets, particularly the NEV market (given that the regulatory framework of the stainless steel market is relatively established), may affect our business, financial condition, results of operations and prospects. For instance, the PRC government has promulgated, amended and updated a series of legislations in relation to the NEV market. On March 13, 2015, the Ministry of Transport issued the Opinions on Accelerating the Promotion and Application of NEVs in the Transportation Industry (《關於加快推進新能源汽車在交通運輸行業推廣應用的實施意見》) (交運發[2015]34號). It is further clarified that by 2020, the application of NEVs in the transportation industry will be established and should reach 300,000 vehicles in total numbers. A preferential vehicle licensing system has also been adopted in several major cities in the PRC to further encourage the purchases of NEVs. On March 16, 2016, the National People's Congress passed the 13th Five-Year Plan for the National Economic and Social Development (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》), which highlighted China's next five years' focus on accelerating the development of core technologies in the fields of NEVs. On January 31, 2018, the Measures for Implementation of Encouraging Purchase and Usage of NEVs in Shanghai (《上海市鼓勵購買和使用新能源汽車實施辦法》) was issued, granting subsidies for NEVs. On February 8, 2021, five government authorities, including the Shanghai Development and Reform Commission, promulgated the new version of the Measures for Implementation of Encouraging the Purchase and Usage of NEVs in Shanghai (《上海市鼓勵購買和使用新能源汽車實施辦法》).

In April 2020, the Ministry of Finance of the PRC, together with several other PRC government departments, issued the Announcement on Policies concerning the Exemption of New Energy Vehicles from Vehicle Purchase Tax (《關於新能源汽車免徵車輛購置稅有關政策的公告》), and the Circular on Improving the Fiscal Subsidy Policies for the Promotion and Application of New Energy Vehicles (《關於完善新能源汽車推廣應用財政補貼政策的通知》), or the 2020 Subsidy Circular, which extended certain subsidies and tax exemptions on NEV purchases to the end of 2022. China's central government also provides certain local governments with funds and subsidies to support the roll out of a charging infrastructure. These policies are subject to certain limits as well as changes that are beyond our control, and we cannot assure you that future changes, if any, would be favorable to the NEV industry. For instance, according to the 2020 Subsidy Circular, in principle, the subsidies for NEV purchases from 2020 to 2022 will generally be lowered by 10%, 20% and 30%, respectively, based on the level of the previous year with limited exceptions in the area of public transport, and the total number of NEVs in China that will be entitled to such subsidies should be no more than two million each year. Furthermore, any reduction or elimination of government subsidies and economic incentives because of policy changes, fiscal tightening or other factors may result in the diminished competitiveness of the NEV industry generally, which in turn may affect the demand for our products. We may need to change or adapt our business focus from time to time in response to the new rules and regulations regarding the end markets of our products, but we may not be able to do so in a timely and efficient manner which may materially and adversely affect our business, results of operations, financial condition and prospects.

Some of our major customers contributed a significant portion of our revenues during the Track Record Period while we typically do not enter long-term contracts with these customers. If these customers reduce or terminate business with us, our business, results of operations, financial condition and growth prospects may be materially and adversely affected.

Our customers primarily consist of smelting and refining companies and stainless steel manufacturers in the stainless steel industry and smelting and refining companies and ternary battery materials manufacturers in the NEV industry. Our customers also include certain nickel product trading companies that will subsequently sell the products they procure from us to smelters and stainless steel manufacturers in the stainless steel industry. In 2019, 2020, 2021 and the six months ended June 30, 2022, revenue contributed by our five largest customers accounted for 55.4%, 53.9%, 40.0% and 40.6% of our revenue for the same periods, respectively. To the extent that we cannot continue to maintain good business relationship with any of these customers, our business, results of operations and financial condition may be adversely affected.

As a result of consolidation in our downstream industry and high barriers to entry due to demanding technological and technical requirements, there are a limited number of companies in our downstream industry, and our customers are typically industry-leading companies. Although we have historically maintained good and stable business relationships with these companies in the past, we cannot assure you that our relationships will continue on similar terms, if at all, in the future. Furthermore, in line with industry practice, we typically do not enter long-term contracts with our customers, other than certain customers for the nickel-cobalt compounds we produce. Instead, we enter into sales and purchase contracts with our customers when they place orders with us. We cannot assure you that our existing major customers will continue to place orders with us or that these major customers will not reduce the amount or frequency of their orders. Given the volatility of short-term orders, we may experience a material change in our revenue.

In addition, the volume of products purchased by these customers is affected by factors that may be beyond our control, including the quality and price of products offered by our competitors, whether the industry is booming or declining in general, and our customers' own business conditions. In the event that our customers terminate their business relationships with us or significantly reduce their purchase of our products, we may not be able to find replacement for the sales of our products in a timely manner or on similar terms, if at all. As a result, our business, results of operations, financial condition and prospects may be materially and adversely affected.

We are exposed to credit risk of our customers and failure of our customers to fulfill their contractual obligations to us may affect our financial condition and results of operations.

As of December 31, 2019, 2020, 2021 and June 30, 2022, our trade and bills receivables were RMB862.4 million, RMB549.2 million, RMB1,025.2 million and RMB1,866.2 million, respectively, representing 28.0%, 25.0%, 22.1% and 24.7% of our respective total current assets as of the same dates. While we generally evaluate our customers' credit in accordance with our internal risk management criteria, such as credit history and likelihood of default, we have limited information about our customers and may encounter difficulties in the collection of receivables from certain customers or in certain geographic areas or businesses with which we have less experience in our dealings. We cannot assure you that all of our customers will fully perform their obligations under their respective contracts with us, and the deterioration of any customers' credit or payment conditions may result in defaults by those customers on their contractual obligations, which could materially adversely affect our business, results of operations, financial condition and growth prospects.

Historically, we have not experienced material collection issues in connection with our trade and other receivables. In 2019, 2020 and 2021, and the six months ended June 30, 2022, our trade and bills receivables turnover days were 29.6 days, 33.3 days, 23.0 days and 26.2 days. Moreover, we recognized impairment loss on trade and bills receivables of RMB2.5 million, RMB2.1 million, RMB6.4 million and RMB8.9 million in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively.

Should the credit worthiness of our customers deteriorate or should a significant number of our customers fail to settle our trade and bills receivables in full for any reason, we may incur impairment losses, and our results of operations and financial position could be materially adversely affected. In addition, there may be a risk of delay in payment by our customers, which in turn may result in an impairment loss provision. There is no assurance that we will be able to fully recover our trade and bills receivables from our customers or that they will settle our trade and bills receivables in a timely manner. In the event that settlements from customers are not made on a timely manner, or at all, our financial condition and results of operations may be materially and adversely affected.

We depend on a limited number of core suppliers for the supply of a substantial portion of laterite nickel ore and ferronickel. Our inability to obtain these raw materials from these suppliers or any increases in the price of such raw materials could have a material adverse effect on our business, financial condition and results of operations.

During the Track Record Period, a majority of our revenue was generated from our trading of laterite nickel ore and ferronickel. In addition, the key raw material required for our production business is laterite nickel ore. As such, it is essential for us to secure a stable supply of laterite nickel ore and ferronickel. We purchase a substantial portion of laterite nickel ore and ferronickel for our trading and production business from a number of major suppliers located in the Philippines and Indonesia (including the purchase of laterite nickel ore from our Indonesian Partner for the Obi projects).

We typically do not enter into long-term supply agreements with a term more than one year with our suppliers for laterite nickel ore and ferronickel. Instead, we typically enter into a purchase and sales contract for each purchase of the relevant raw materials. As such, despite our historically stable business relationships with our core suppliers, we cannot assure you that such relationships can continue in the future, or that our existing suppliers will continue to provide us with laterite nickel ore and ferronickel with the same volume on terms acceptable to us. As there are only a limited number of laterite nickel ore and ferronickel suppliers of sufficiently large scale in the Philippines and Indonesia, if we are no longer able to procure laterite nickel ore or ferronickel at a price acceptable to us from our existing core suppliers, we may not be able to find comparable suppliers as replacement.

In addition, nickel mines in the Philippines and Indonesia are subject to risks related to limited mining life and uncertain, if the estimates for the reserves are not accurate. If the quality and quantity of the nickel ore produced from our core suppliers' nickel mines fall short of their estimation, we may not be able to continue to procure nickel ore from our core suppliers at quantities or prices acceptable to us. Moreover, nickel mines in the Philippines and Indonesia are subject to extensive regulations, the violation of which may lead to our core suppliers subjecting to penalties, including suspension of production or revocation of licenses, which in turn may prevent them from continuing to supply nickel ores and/or ferronickel to us. Any occurrence of the foregoing could materially and adversely affect our financial condition, results of operations and prospects.

We are dependent on suppliers for various other products and services in our business.

In addition to laterite nickel ore and ferronickel, we rely on third-party suppliers for various other goods and services including utilities, energy, raw materials, transportation and logistics, human resources, project design and construction, resources development services and testing services, in line with industry practice. We endeavor to source goods and services from third-party providers that we believe are able to meet our quality standards, delivery schedule and other requirements. Nevertheless, we may not be able to monitor the performance of these third-party providers effectively and efficiently. Therefore, we are exposed to the risk that our third-party service providers may fail to adequately perform their obligations, which may in turn adversely affect our business operations.

For example, we collaborated with China ENFI Engineering Corporation ("**ENFI**," formerly China Nonferrous Engineering and Research Institute), in the design and planning of the production lines of the Obi projects, and with certain construction service providers for the construction of the manufacturing facilities of the Obi projects. See "Business — Research and Development and Technical Improvement" for more details. If the quality of their services fails to meet our requirements or they fail to deliver their services as scheduled, we may be unable to complete the construction of our production lines on time and may incur additional expenses due to such delays or sub-standard performance. If ENFI or our construction service providers terminate their services with us, we cannot assure you that we are able to find replacement service providers in a timely manner with similar service terms, if at all. In addition, in the trading and production businesses, we use third-party inspection agencies to issue certificates to determine the average contents of nickel and other elements and impurities, as applicable, in the laterite nickel ore and ferronickel. We typically settle the final payment with our suppliers and customers based on the inspection results from the certificates. However, the test results may not always accurately reflect the actual composition of the products we deliver or produce due to various reasons which may be beyond our control, including human errors during sampling. Any of these occurrences may cause unnecessary and additional losses and delays to our businesses.

In addition, if we need extra manpower due to a shortage of labor, or in order to accelerate the progress of work, we may need to hire short-term temporary workers, or engage independent third-party labor providers. However, qualified labor providers and other third parties may not always be readily available when our needs for outsourcing arise. If we are unable to hire a sufficient number of qualified short-term temporary workers in Indonesia on terms that are commercially acceptable to us, our ability to complete our projects on the Obi Island as scheduled may be impaired, which in turn may adversely affect the results of our operation and financial performances. Outsourcing may also expose us to risks associated with non-performance, delayed performance or sub-standard performance by labor providers or other third parties. As a result, we may experience deterioration in the quality of our products, incur additional expenses due to delays to or higher costs of the delivery of our products, or be subject to liability under the relevant contract for the non-performance, delayed performance or sub-standard performance of our labor providers or other third parties.

Any of the above events could have a material adverse impact on our profitability, financial performance and reputation, and may result in litigations or damage claims against us.

Our nickel production depends on a stable, timely and adequate supply of energy, power and raw materials in addition to nickel ore at favorable prices. In particular, we experienced power shortages during the Track Record Period and may continue to experience power shortages in the future, which may have a material and adverse effect on our business operations and financial performance.

In addition to nickel raw materials, we depend on the supply of energy, power and raw materials including coals, lime, sulfuric acid, water and other chemicals in order to maintain our production processes. Our production volume and production costs are dependent on our ability to source such materials at acceptable prices and maintain a stable supply. The prices for these raw materials are subject to price volatility attributable to a number of factors which may be beyond our control, including inflation, disruption in the global supply chain, supplier capacity constraints, general economic conditions, commodity price fluctuations, demand from other industries for the same materials, the availability of complementary and substitute materials, and local and national regulatory requirements. Furthermore, there can be no assurance that shortages of energy or water will not occur in the future or that we will be able to pass on any cost increases in raw materials, energy or water to our customers. Significant fluctuations in such costs may have a material effect on our profitability if we are unable to adjust the prices of our products accordingly, and may also harm our competitive advantages with respect to the affected products. In particular, increases in energy and raw material prices that we are unable to pass onto our consumers will reduce our profit margins.

Moreover, if the supply of such materials is affected by natural disasters, adverse weather conditions, suppliers' equipment failures, disruptions in transport or other inclement factors, we may not be able to locate alternative sources of supply in sufficient quantities, of suitable quality and/or at acceptable prices.

In addition, continuous changes in government policies may adversely affect the prices and supply of energy and utilities that are required in our production. Recently, the Chinese government introduced the overall goal, and the corresponding timetable, of carbon peak and carbon neutrality. In order to achieve these goals, the relevant government authorities may adopt certain restrictions or guiding measures for domestic companies with high energy consumption. These measures may include production reduction and curtailment or requiring these companies to either install low-energy-consuming machinery and equipment for their production and operation, or upgrade existing ones to reduce their energy consumption and carbon emissions. In addition, out of political and diplomatic considerations, including preventing negative publicity from the international community, the Chinese government may discourage, restrict or even prohibit certain high-emission industries from investing or implementing projects in other countries and regions.

Our Jiangsu Facilities are engaged in the production of ferronickel which, consistent with the industry practice, requires relatively high energy consumption. Accordingly, our operations, production schedules and potential future expansion in its production capacities may be subject to these policies and limited by the corresponding restrictions, which in turn may adversely affect our production output and results of operation. For instance, our Jiangsu Facilities had to temporarily shut down in September 2021 due to power shortages. This power shortage, which was as a result of the local government's electricity rationing efforts targeting energy intensive enterprises in Jiangsu province, lasted 17 days, during which our Jiangsu Facilities had to temporary suspend its production activities. As a result of the power shortage, our Jiangsu Facilities' monthly production volume in September 2021 decreased to 419 metal tons of ferronickel, reflecting an over 70% decrease from that of the same periods in 2019 and 2020. Although our Jiangsu Facilities resumed operation in October 2021, it continued to be subject to electricity rationing measures from time to time in October 2021, which also adversely affected its ferronickel production. See "Business — Energy" for more details. There is no assurance that the relevant government authorities in China will not implement similar electricity rationing measures in the future that may have a material and adverse effect on our business operations and financial performance. In addition, we may need to incur additional costs and expenses to replace high-energy-consuming machinery and equipment and purchase, or upgrade existing machinery and equipment into, low-energy-consuming and low-emission ones. In the long term, China's "carbon peak" strategy may lead to a change in the structure of energy mix, decreasing the proportion of power generated from coal burning while increasing the proportion of new energy including wind power and solar power. This change may in turn lead to an increase in our energy procurement costs and costs of production. Any occurrence of the foregoing may materially and adversely affect our revenue and profitability.

Furthermore, although the Obi projects have not been affected by these policies as of the Latest Practicable Date, they require adequate power generation facilities to ensure that their production activities can be carried out smoothly. We and our Indonesian Partner have jointly invested in the power plants for phase I of the HPAL project and phase I of the RKEF project, and are jointly investing in the power plants for phase II of the HPAL project, all of which are time consuming and cost intensive, and may subject us to regulatory risks, risks associated with business cooperation, and uncertainties and risks involved in the construction. We may also consider collaborating with our Indonesian Partner to construct photovoltaic power generation facilities for the Obi projects in the future, to supplement the power generation by their power plants. However, we cannot assure you that generating electricity from solar power is more reliable or cost-competitive compared to other traditional energy sources.

We may not be able to keep abreast with the latest development and advancement of technology while our competitors may have more robust R&D capabilities and be able to develop better products, and our downstream market may not be able to develop and grow as we previously expected.

Our abilities to improve our production capabilities and launch new products depend largely on our research and development capabilities. We have continuously invested in upgrading and optimizing our production techniques and the machine and equipment used in our production, in order to improve the production efficiency, energy efficiency and quality of our products, which we believe are crucial to our future development. As of June 30, 2022, our R&D and technical team consisted of 276 employees, who are primarily based in Shanghai and Xi'an. We cannot assure you that such investments will yield immediate tangible benefits or our research and development efforts will be effective. Even if such efforts are successful, we may not be able to apply our newly developed technologies to our products in ways that are accepted by our customers. Even if we can successfully translate our R&D results into commercial products, our competitors may have more robust R&D capabilities that enable them to make breakthroughs in production techniques and machinery and equipment used for their production; they may also develop products that demonstrate better quality, can more effectively address the unique and diverse needs of customers, or can be marketed at more competitive prices. If we are unable to maintain or enhance our research and development capabilities, our competitiveness may be undermined, which could adversely affect our business, results of operations, financial condition and growth prospects.

In addition, the nickel-cobalt compounds we are producing, or expect to produce in the future, are all raw materials required for the production of NEV batteries. In recent years, the rapid growth in the ternary battery market has in turn led to the increase in demand for nickel-cobalt compounds. However, no assurance can be given that such an upward trend can continue at a similar growth rate. In the event that a substitute to ternary battery which is more price-competitive or demonstrates better performance becomes available, the demand for our nickel-cobalt compounds may be materially and adversely impacted, and our business, results of operations, financial condition and prospects may accordingly be materially and adversely affected.

Failure to maintain an effective quality control system could have a material adverse effect on our business, financial condition and results of operations.

As the quality of our products is critical to the success of our businesses, we must maintain an effective quality control system for our trading, production and other operational activities. For example, our Company, Ningbo Huiran and Jiangsu Wisdom are certified to ISO 9001-2015 quality management system. However, the effectiveness of our quality control system depends significantly on a number of factors, including the design of the system and the related training programs, as well as our ability to ensure that our employees and third party suppliers adhere to our quality control policies and guidelines.

Any failure or deterioration of our quality control system could result in defects in our products or that our products fall short of the specifications stipulated in the contracts, which in turn may subject us to contractual, product liability and other claims. Any such claims, regardless of whether they are ultimately successful, could cause us to incur significant costs, harm our business reputation and result in significant disruption to our operations. Furthermore, if any such claims were ultimately successful, we could be required to pay substantial monetary damages or penalties, which could have a material adverse effect on our business, financial condition, results of operations and reputation.

Seasonality may cause fluctuations in our sales and operating results.

We have in the past experienced, and expect in the future to continue to experience, seasonal fluctuations in our revenue and sales from time to time. In anticipation of the annual rain season in the Philippines from late October to late March (during which mining and shipping of nickel ore from certain major nickel mining areas in the Philippines may be significantly reduced), our nickel ore customers typically increase their order volume from us starting mid-year, as a result of which our nickel ore trading business has typically experienced higher sales and recorded higher revenue in the third and fourth quarter of the year. The growth in our business has offset this seasonal trend to some extent, however, seasonality is expected to continue to impact our results of operations and financial condition.

Our operation is affected by non-recurring government grants.

During the Track Record Period, we received government grants of RMB21.3 million, RMB59.3 million, RMB80.2 million and RMB41.9 million for 2019, 2020, 2021 and the six months ended June 30, 2022, respectively, accounting for 0.2%, 0.8%, 0.6% and 0.4% of our revenue for the respective periods. These government grants are non-recurring in nature and mainly include (i) government grants received from local governments in connection with our payment of taxes, and (ii) utility subsidies. The award of government grants may be discretionary and subject to certain selection criteria and procedures stipulated by the local governments, which we may not qualify in the future. There can be no assurance whether and when we will be able to receive any such government grants in the future, or at all. If we do not receive government grants in 2022 or any subsequent periods at the same level as we did during the Track Record Period, our profitability for these periods may be adversely affected.

The gain on step acquisition of subsidiaries we recorded during the Track Record Period is non-recurring in nature.

In 2021, we recorded a gain on step acquisition of subsidiaries of RMB282.6 million which was non-recurring and related to our acquisition of 18% additional interest in HPL in November 2021. See Note 35 in Appendix IA to this prospectus for more details. The availability of such non-recurring gain is dependent on a variety of factors. We have in the past made and may in the future seek to make acquisitions and investments and enter into strategic alliances to further expand our business, if we are presented with appropriate opportunities. However, we cannot assure you that we will always be able to complete such acquisitions successfully or on terms acceptable to us. We cannot assure you that we will continue to record non-recurring gains on the same or similar scale, if at all.

We are subject to inventory risks.

Our inventory primarily includes finished nickel products, including ferronickel and MHP, which we have not sold to our customers, as well as nickel products, including laterite nickel ore and ferronickel, which we have procured for our trading businesses but have not delivered to our customers. We also maintain an appropriate level of raw materials for our production. As of December 31, 2019, 2020, 2021 and June 30, 2022, the balance of our inventories amounted to RMB632.2 million, RMB396.3 million, RMB974.6 million and RMB1,228.4 million, respectively. In 2019, 2020 and 2021 and the six months ended June 30, 2022, our inventory turnover days were 23.1, 27.6, 22.9 and 28.8 days, respectively. However, forecasts, including those for our customers' demand and for our production requirements, are inherently uncertain. Our industry, including its downstream markets, is fast-changing and experiencing rapid technological advancement. Our customers may change their demands accordingly to cope with the development in their industries. If our forecasted demand is lower than what eventually transpires, we may not be able to maintain an adequate inventory level of products we procured in our trading business or our finished products we produce in our production business, or manufacture our products in a timely manner, and we may lose sales and market share to our competitors. On the other hand, we may also be exposed to increased inventory risks due to accumulated excess inventory of our products or raw materials. Excess inventory levels may lead to increases in inventory costs, risks of inventory obsolescence and provisions for write-downs. In particular, in the event there is a decline in the downstream markets and/or the prices of nickel products, or we experience inventory loss or damage either because of our improper management or factors beyond our control including natural disasters, we may need to record significant write-offs for our inventory. Any occurrence of the foregoing will materially and adversely affect our business, results of operations, financial condition and prospects.

In order to maintain an appropriate inventory level of trading products, finished products and raw materials to meet market demand, we adjust our procurement amount and production schedule from time to time based on customers' orders and anticipated demand. We also carry out inventory review and aging analysis on a regular basis. However, we cannot guarantee that these measures will always be effective and that we will be able to maintain an appropriate inventory level. We may still be exposed to the risk of holding excessive inventory, which may increase our inventory holding costs and subject us to the risk of inventory obsolescence or write-offs. This could have a material adverse effect on our business, results of operations and financial condition. We did not record any inventory write-offs during the Track Record Period.

Our indebtedness and large repayment sums may materially and adversely affect our liquidity and ability to respond to adverse economic and industry conditions.

We have historically relied on interest-bearing bank and other borrowings to fund a portion of our capital expenditures, and we expect to continue such reliance in the future. As of September 30, 2022, we had interest-bearing bank and other borrowings of RMB6,724.5 million. For details of our bank and other borrowings, see "Financial Information — Indebtedness."

As of September 30, 2022, our current bank borrowings, which were due within one year or on demand, amounted to RMB2,665.3 million. These borrowings arose primarily from our use of interest-bearing borrowings from banks in the PRC to satisfy our working capital and capital expenditure needs. Due to our reliance on these borrowings, we are exposed to interest rate risk resulting from interest rate fluctuations.

Rising interest rates could increase interest expenses relating to our outstanding variable-rate borrowings, which could materially adversely affect our business, results of operations, financial condition and prospects.

Our ability to meet our debt obligations largely depends on our operating performance and the ability of our customers to fulfill their payment obligations to us. If we encounter difficulties in generating sufficient cash to repay our outstanding indebtedness, our liquidity, business, results of operations, financial condition and prospects may be materially and adversely affected, and we may not be able to expand our business. We may be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness, which may not be successful or provide sufficient remedial measures.

We may face substantial financial and operational risks if our business environment or the relevant interest or exchange rates change, or if our cash flows and capital resources are insufficient to fund our debt service obligations. Failure to service our debts could result in increases in interest rates that we pay on our debt and legal actions against us by our creditors, or even bankruptcy.

In addition, obtaining additional external financing may require us to issue additional equity or debt securities or obtain additional bank loans. The issuance of additional equity or convertible debt securities could result in dilution of our shareholders' equity interests. The incurrence of additional indebtedness could result in increased fixed obligations and operating covenants that restrict our operations. We cannot assure you that additional financing will be available in amounts or on terms acceptable to us, if at all.

Due to our level of borrowings, our ability to respond to changing market conditions may be limited and our business expansion plans through acquisitions may be impeded. This could also increase our vulnerability to adverse economic and industry conditions and place us at a disadvantaged position compared to competitors who have lower levels of debt obligations.

We may incur impairment losses for our intangible assets and goodwill.

As of June 30, 2022, we had intangible assets of RMB519.0 million and goodwill of RMB218.0 million, primarily arose from our acquisition of an additional 18% interest in HPL in November 2021. Our intangible assets mainly represent customer relationship related to our offtake agreements with customers. Our goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of our previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. See Notes 15 and 16 in Appendix IA to this prospectus for more details.

During the Track Record Period, we did not record any impairment losses for our intangible assets or goodwill. Any significant impairment charges of intangible assets or goodwill in the future could have a material adverse effect on our business, financial condition and results of operations. The assessment of impairment losses involves a significant degree of management judgments as well as estimates in determining the key assumptions, and unpredictable adverse changes in the future may also result in decreases in the value of our intangible assets or goodwill. Therefore, we cannot assure you that these assumptions and estimates would not result in outcomes that require a material adjustment to the carrying amounts of these intangible assets and goodwill in the future, which may in turn result in impairment losses. Significant impairment losses on intangible assets and/or goodwill may have a material adverse effect on our financial condition and results of operations.

We may incur impairment losses for prepayments, other receivable and other assets.

Our prepayments, other receivables and other assets primarily include prepayments (primarily related to our procurement of nickel ore and leasing of vessel for the shipment of nickel products), other receivables and other current assets. As of December 31, 2019, 2020, 2021 and June 30, 2022, we recorded impairment allowance for prepayments, other receivables and other assets of RMB1.5 million, RMB0.7 million, RMB0.6 million and RMB0.7 million, respectively, primarily related to the disposal of Xiangxiang Enterprise. See “Financial Information — Analysis of Selected Consolidated Statements of Financial Position — Prepayments, Other Receivables and Other Assets” and Note 21 in Appendix IA to this prospectus for more details. The assessment of impairment losses involves a significant degree of management judgments as well as estimates in determining the key assumptions, and unpredictable adverse changes in the future may also result in decreases in the value of our prepayments, other receivables and other assets. Therefore, we cannot assure you that these assumptions and estimates would not result in outcomes that require a material adjustment to the carrying amounts of our prepayments, other receivables and other assets in the future, which may in turn result in impairment losses. Any significant impairment losses of prepayments, other receivables and other assets in the future could have an adverse effect on our business, financial condition and results of operations.

We are subject to risk of recoverability of deferred tax assets.

As of December 31, 2019, 2020, 2021 and June 30, 2022, our deferred tax assets amounted to RMB21.4 million, RMB24.3 million, RMB43.2 million and RMB65.8 million, respectively. Further details are included in Note 30 to the Accountant Report included in Appendix IA to this prospectus. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Any changes in management's judgment as well as our future taxable profits and tax planning strategies would affect the carrying amounts of deferred tax assets to be recognized and the recoverability of deferred tax assets recognized in our consolidated financial statements, and therefore could materially and adversely affect our financial condition and results of operation in future years.

Fluctuation of the operational results of our invested joint ventures and associates may adversely affect our financial position.

During the Track Record Period, we made strategic investments in a number of entities, primarily including: (i) DCM and ONC, our joint ventures, (ii) HJF, our associate, and (iii) HPL, which was our associate prior to November 30, 2021. As of December 31, 2019, 2020, 2021 and June 30, 2022, we recorded interests in joint venture of nil, nil, RMB0.7 million and nil, respectively, and interests in associates of RMB670.3 million, RMB1,015.7 million, RMB581.9 million and RMB556.6 million, respectively. See Notes 17 and 18 in Appendix IA to this prospectus for more details.

Our investments in our invested associates and joint ventures are generally illiquid. Our ability to realize our anticipated investment returns will depend on the investees' ability to pay dividends, which in turn relies on, among other things, the business and financial performance of our investees. There is no assurance that our invested associates and joint ventures will declare and/or pay any dividends because the declaration, payment and amount of dividends are subject to the discretion of directors of associates, depending on, among other considerations, their operations, earnings, cash flows and financial positions, constitutional documents and applicable law. Even if we recognize share of profits of these associates and joint ventures under equity reporting method, our investment would not generate any cash flow for us unless our investees declare and pay dividends to us. In addition, for our investments in associates, if our share of profits of these associates were to fluctuate, our results of operations may be adversely affected. We recorded share of losses of associates of RMB34.4 million, RMB68.1 million and RMB54.7 million in 2019, 2020 and the six months ended June 30, 2022, respectively, compared to share of profits of associates in RMB99.0 million in 2021.

Our success depends upon our key personnel. Any failure to attract and retain necessary talent may materially and adversely affect our business, results of operations, financial condition and growth prospects.

Our success depends, to a significant extent, on the capability, expertise and continued services of our senior management team and core technical team. We rely on the expertise and experience of our key executives in developing business strategies, product development, business operation and maintaining relationships with customers, while we rely on the knowledge, expertise and experience of our core technical team in designing, operating and maintaining our production lines under the HPAL and RKEF projects. If we lose the services of any of our key executives or members of core technical team, we may not be able to find a suitable replacement with comparable knowledge and experience, and our business, results of operations, financial condition and growth prospects may be materially and adversely affected.

Our success also depends on our ability to attract and retain key talented personnel such as key research and development employees, engineers and other technical staff, especially those with experience in the HPAL and RKEF processes, for our business and operations in the PRC and overseas. We may not be able to attract or retain all these personnel we need. The HPAL process involves long and complicated production processes and requires its operators and technical staff to have deep knowledge and experience to make swift and accurate judgment. The market and industry we are in are growing rapidly and, as we build our brand and our technical mastery becomes more well known, our competitor or other companies may be more likely to poach our talent, including our core technical team and other technical staff and engineers. We may need to offer better remuneration and other benefits to attract and retain our key or experienced personnel and therefore cannot assure you that we will have the resources to fully achieve our staffing needs or that our costs and expenses will not increase significantly as a result of increased talent acquisition and retention costs. Any increase in staffing costs to retain such personnel may have a negative impact on our ability to maintain our competitive position and to grow our business. Furthermore, while we have entered confidentiality agreements (which typically also include anti-competition clauses) with many of our employees, we cannot assure you our confidential information and trade secrets can be properly protected and will not be leaked. In addition, while our technical staff are subject to anti-competition clauses, the term for the anti-competition obligation typically lasts two years, and we cannot assure you that they will not join our competitors either within or after the two-year period. If we fail to attract and retain competent key personnel or our technical staff choose to join our competitors, our business, results of operations, financial condition and prospects may be materially adversely affected.

Work stoppage and other labor related matters may have an adverse effect on our businesses.

We believe that we have a good working relationship with our employees across our respective business segments. We did not experience any material work stoppages, strikes or other major labor problems in the Track Record Period. However, there is no assurance that any of such events will not arise in the future. If our employees were to engage in a strike or other work stoppage, we could experience significant disruption to our operations and/or incur higher on-going labor costs, which may have an adverse effect on our business and results of operations.

As of June 30, 2022, we had 6,272 full-time employees, a majority of whom were based on the Obi Island, Indonesia. Our employees in Indonesia are not represented by labor unions. However, we cannot assure you that they will not unionize in the future. In case they become unionized, any conflicts between us and our employees' labor unions could have an adverse effect on our financial condition and results of operations. See "— Risks Related to Our Overseas Operations — Labor Activism could adversely affect our business in Indonesia" for more information.

In addition, labor costs in regions where we operate have been increasing in recent years and could continue to increase in the future. If labor costs in these regions continue to increase, our production costs will increase. We may not be able to fully pass on these increased costs to customers by increasing the selling prices of our products in light of competitive pressure in the markets where we operate. In such circumstances, our profit margin may decrease, which could have an adverse effect on our results of operations.

We are subject to risks associated with contract liabilities.

As of December 31, 2019, 2020, 2021 and June 30, 2022, we had contract liabilities of RMB240.9 million, RMB318.4 million, RMB296.9 million and RMB152.2 million, respectively. Our contract liabilities represent short-term advances received from customers. A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the relevant products is transferred. See Note 28 in Appendix IA to this prospectus for more details. If we fail to fulfill our obligations under contracts with our customers for any reason, we may not be able to recognize such contract liabilities as revenue, and our customers may require us to refund the advances we have received, which may adversely affect our cash flow and liquidity position and our ability to meet our working capital requirements and in turn, our results of operations and financial condition. Also, such failures in fulfilling our contractual obligations may also adversely affect our relationship with such customers, which may further affect our reputation and results of operations in the future.

We face certain risks relating to non-compliance in relation to the real properties we own, use or lease.

For real properties that we own, including those related to our manufacturing activities and offices, we must obtain various permits, certificates and other approvals from the relevant government authorities at various stages of property development, including the land use right certificates, planning permits, construction permits and building ownership certificates. For real properties that we use or lease, we are also subject to various regulations, including the requirement to register our lease agreements with the local housing bureau within 30 days after signing the lease agreements.

We have title defects or non-compliances relating to the real properties that we own, use and lease. As of the Latest Practicable Date, the main office building of Jiangsu Wisdom, one of our subsidiaries, with a gross floor area of 4,830.33 square meters (accounting for approximately 1.8% of the total gross floor area of the properties we occupy), has not obtained the ownership certificate, because a small portion of the land area on which this building is built has exceeded the area permitted in the relevant government approval. As a result of this defect, we are subject to a number of risks. Jiangsu Wisdom may be unable to continue to use this office building and may be ordered by the relevant government authorities to return the portion of land exceeding the area permitted in the relevant government approval. In addition, Jiangsu Wisdom may be subject to a potential fine up to RMB307 thousand for exceeding the area permitted, and a fine up to RMB954 thousand for failure to obtain ownership certificate of our main office building. For more details, see "Business — Properties — Owned Land and Buildings — Title Defects — Main office building."

We have communicated and consulted with the High-tech Industrial Development District Bureau of Natural Resources and Planning Bureau of Suqian, Jiangsu Province on the plan to rectify the non-compliance concerning this property. Based on such communication and consultation, we plan to first purchase from the local government the land use right of the small portion of the land area on which this building is built that has exceeded the area permitted in the relevant government approval. We have accordingly started our preparatory work. Our PRC Legal Advisor has advised us that the High-tech Industrial Development District Bureau of Natural Resources and Planning Bureau of Suqian, Jiangsu Province is the competent authority to handle the title defect related matters concerning this property. If we are unable to continue using this property due to the non-compliance, we may need to rent another place in proximity to the current location as the main office building for Jiangsu Wisdom, which we expect to incur approximately RMB0.7 million of rental expenses per annum. In addition, if we are ordered to demolish this building as a result of such non-compliance, we estimate that we may further incur up to approximately RMB0.6 million for the demolishing of this building.

In addition, as of the Latest Practicable Date, the warehouse (which is used for certain solid hazardous wastes), central control room and exhibition room of Jiangsu Wisdom, with an aggregate gross floor area of 9,342.7 square meters (accounting for approximately 3.5% of the total gross floor area of the properties we occupy), has not obtained the ownership certificates. Jiangsu Wisdom did not obtain the relevant building ownership certificates for these properties because it commenced construction without obtaining the construction planning permit from the relevant government authorities. This in turn is because the land occupied by these properties is in close proximity to the canal area, on which no new project of industrial and mining enterprises that are not conducive to the ecological and environmental protection can be constructed. As a result of this defect, we are subject to a number of risks. We may be unable to continue to use these properties. In addition, Jiangsu Wisdom may be required by the competent authority to take corrective measures to eliminate the impact and be subject to a fine. If Jiangsu Wisdom fails to take the appropriate measures to eliminate the impact, it may be ordered to demolish the properties by the relevant authorities. It may be further subject to a fine up to RMB1.3 million for failure to obtain ownership certificates of the warehouse, the central control room and the exhibition room.

We have suspended the use of the warehouse as of the Latest Practicable Date and do not expect to put this property back into use before obtaining the relevant building ownership certificate. The gross floor area of the central control room and the exhibition room is relatively small and we have readily available space in our other properties that can serve the same functions currently served by these two properties. In the event that Jiangsu Wisdom is no longer able to use these properties, we do not believe that it will have any material adverse effect on our operations.

We are actively communicating and consulting with the relevant government authorities on the plan to rectify the non-compliance concerning the central control room and the exhibition room. We are in the process of obtaining the construction planning permits, following which we plan to apply for the building ownership certificates for these properties. In September 2022, the People's Government of Suyu District, Suqian, Jiangsu Province hosted a meeting to discuss the title issues related to these properties, during which they have agreed to, through the High-tech Industrial Development District Bureau of Natural Resources and Planning Bureau of Suqian, Jiangsu Province, facilitate our applications for the construction planning permits of the warehouse, the central control room and the exhibition room, which has to be completed before we obtain the ownership certificates of the relevant buildings. Following the meeting, we submitted applications for the construction planning permits of the warehouse, the central control room and the exhibition room to the High-tech Industrial Development District Bureau of Natural Resources and Planning Bureau of Suqian, Jiangsu Province in the same month. Our PRC Legal Advisor has advised us that the High-tech Industrial Development District Bureau of Natural Resources and Planning Bureau of Suqian, Jiangsu Province is the competent authority to handle the title defect related matters concerning the warehouse, the central control room and the exhibition room. If we fail to obtain the relevant construction planning permits or building ownership certificates and are subsequently ordered to demolish these properties, we estimate that we may incur up to approximately RMB1.4 million for the demolishing and/or relocation of these three properties in relation to the relevant non-compliances.

For more information related to the title defects relating to the real properties that we own, see "Business — Properties — Owned Land and Buildings — Title Defects."

As of the Latest Practicable Date, we have 12 leases concerning property located in China that have not been registered with the relevant authorities as required, because the relevant lessors failed to provide necessary documents for us to register the leases with the local government authorities. As a result, we may be exposed to potential monetary fines ranging from RMB1,000 to RMB10,000 for each non-registration. As such, our maximum potential penalty for non-registration of leases is RMB120,000. As of the Latest Practicable Date, we have not been fined by any such authorities for non-registration of leases. However, we cannot assure you that we will not be fined by such authorities, or required to have our leases registered in the future, which in turn may increase our compliance costs. We plan to continue to maintain regular communication with the relevant lessors and ask them to provide us with the required documents and assist us to complete the registration of the relevant lease agreements with the relevant housing administrative authorities.

If we are unable to rectify our title defects in time, if at all, we may be subject to penalties, including the property being required to be demolished, or we may be forced to vacate the property. As a result, we may need to relocate the facilities in these properties, which may have a material and adverse impact on our business, including incurring additional expenses, loss of business, or delays in delivery of our products, and becoming subject to damage claims by our customers. In addition, if we are unable to complete the lease registration in time, if at all, we may be subject to penalties including monetary fines. Any such relocation or penalties may disrupt our business operation and have a material adverse effect on our business, financial condition, operating results and growth prospects.

Negative publicity related to the nickel industry, especially that concerning the environmental impact of the production process, could materially and adversely affect our business operations.

As of the Latest Practicable Date, our manufacturing facilities comply with the material local laws and regulations applicable to our production. In particular, for the HPAL and RKEF projects on the Obi Island, we have actively taken into consideration in our design and construction of our production lines such factors including workplace safety and environmental protection. However, we cannot assure you that our production and operation activities will not have an adverse impact on the local environment or cause tension between us and the local community due to reasons that may be beyond our control, including natural disasters, human negligence or errors during operation, repairing or maintenance. If any environmental-related accidents occur or our relationship with the local community deteriorates, our business, financial condition, results of operations and growth prospects may be adversely and materially affected.

In addition, other nickel production projects, especially those employ the hydrometallurgy process such as the HPAL process, have caused, or may in the future experience, negative reports and publicity in relation to their negative environmental impacts and their tension with the local communities. In general, companies in the nickel production industry, including our business partners in the Philippines and Indonesia, may from time to time be subject to negative reports and publicity in relation to their environmental impacts, which in turn may adversely affect our business reputation. These reports and negative publicity have further caused NGOs, markets and investors to form a negative impression of the HPAL process and our industry in general. Regardless of whether such negative publicity can be substantiated by data and facts, they may adversely impact our operations on the Obi Island, including:

- end consumers and/or NGOs may require our customers to stop using, or reduce the use of, nickel-cobalt compounds produced from the HPAL process;

- our customers may require us to adopt more environmentally friendly but more costly ways to process the tailings and other wastes generated from the production of nickel-cobalt compounds, which may in turn increase our costs and reduce our profit margins;

- consumers, NGOs or local communities may pressure or lobby the relevant government authorities to adopt and impose more stringent laws, regulations and policies on our production activities, which may significantly increase our compliance and operating costs; and

- based on the judgment that our project is not environmentally friendly, investors may choose to divest from our Company, which may adversely affect our stock price.

Any occurrence of the foregoing could materially and adversely affect our business, financial condition, results of operations and prospects.

Our business operation in Indonesia is subject to various risks, including the evolving regulatory environment and perceived prevalence of corruption and bribery.

Corruption and poor governance in Indonesia have historically been a hindrance to the Indonesian government's ability to attract foreign investment and stimulate economic growth. For example, according to the 2021 corruption perception index published by Transparency International, a non-governmental organization for combatting global corruption and preventing criminal activities arising from corruption, Indonesia ranked 96 out of 180 countries and regions, with a score of 38 out of 100. Failure of the Indonesian government to continue to fight corruption or the perceived risk of corruption in Indonesia, including those at the central and local governments levels, could have an adverse effect on the Indonesian economy. The risks of corruption, bribery and other unethical practices of local government and the lack of transparency within the Indonesian legal systems may adversely affect our businesses.

In addition, the regulatory landscape implicating our business operation in Indonesia has been and is expected to continue evolving. The evolving regulatory environment might not necessarily have a positive effect on our operations and business development. For example, the Indonesian government has imposed an export ban on the nickel ore effective on January 1, 2020 to encourage the foreign investment in the downstream production sectors; See "Business—Indonesian Government's Export Ban on Laterite Nickel Ore" for more details. It has also proposed to adopt a "carbon tax" regime to protect the environment. See "Regulatory Overview—Harmonization Tax Regulations—Carbon Tax" for more information. Moreover, many existing and proposed Indonesian laws and regulations lack clarity on how exactly these laws and regulations should be implemented. There also remain inherent and substantial uncertainties and inconsistencies in the interpretation, implementation and enforcement of laws and government policies that are relevant to us. The ambiguous legal and regulatory requirement, coupled with the corruption in certain government bodies and the lack of transparency within the legal systems, can adversely affect our business operations in Indonesia, including the construction schedule of the Obi projects and the production of nickel products, thereby causing delay, suspension and even termination to the relevant works. We have implemented an regulatory compliance, anti-corruption and anti-bribery policy, a summary of which can be found under "Business — Risk Management — Regulatory Compliance, Anti-bribery and Corruption Risk Management" in this prospectus. However, the sufficiency and effectiveness of such measures cannot be assured and the extent of our exposure to the relevant risks varies depending on the stages of the Obi projects and the further evolvement of the regulatory environment, which is beyond our control. The above factors may disrupt the operation of the Obi projects, incur loss of staff and assets and may materially and adversely affect our business, financial condition, results of operations and prospects.

Our business depends on our ability to protect our intellectual property rights. Our intellectual property rights may be infringed upon by third parties, and we may also be exposed to intellectual property infringement and other claims by third parties, which, if successful, could cause us to pay significant damage awards and incur other costs.

Our intellectual property rights primarily include patents, trade secrets and trademarks. We rely primarily on a combination of our patents, trade secrets, trademarks and employee and third-party confidentiality agreements to protect our intellectual property rights. As of the Latest Practicable Date, we had 44 registered patents, 25 trademarks, two copyrights and three domain names in the PRC. As of the same date, we were not aware of any material violation or infringement of our patents, trade secrets, trademarks and other intellectual property rights. However, we cannot assure you that infringement of our intellectual property rights by other parties does not exist now or will not occur in the future. To protect our intellectual property rights and maintain our competitive advantage, we may engage in legal proceedings against parties who we believe are infringing upon our intellectual property rights. Legal proceedings are often costly and may divert management attention and other resources, including time and money, away from our business. In certain situations, we may have to initiate legal proceedings in foreign jurisdictions, in which case we are subject to additional risks as to the result of the proceedings and the amount of damages that we can recover. In addition, we have no insurance coverage against litigation costs and will have to bear all costs arising from such litigations to the extent that we are unable to recover from other parties.

Our success also depends on our ability to use, develop and protect our technology and know-how without infringing the intellectual property rights of third parties. We cannot assure you that we will not be subject to claims of infringement upon the intellectual property rights of third parties. The validity and scope of any potential claims relating to our production technology and know-how involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we are a party may subject us to significant liability to third parties, require us to seek licenses from third parties, pay ongoing royalties, or redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation may also result in our customers or potential customers deferring or limiting their purchase of our products until resolution of such litigations.

We are exposed to foreign currency exchange fluctuations.

The currencies used in our business operation primarily include U.S. dollar and Renminbi. For our operations in Indonesia, we primarily use U.S. dollar as the transaction currency, except that we use Indonesian rupiah for the purchase of nickel ore and certain other raw materials and ancillary materials. While we strive to match the currency used in our transactions, to the extent our procurement and the subsequent sales involve different currencies, we are subject to risks arising from the use of different currencies, especially for the export of products and sales outside the country of procuring and manufacturing. Exchange rates between the Renminbi and the U.S. dollar, as well as between the Indonesian rupiah and the U.S. dollar, may fluctuate and our financial performance can be affected. For example, for our trading business, if we procure the products using U.S. dollar while selling the same products to our customers based in China in Renminbi, our financial performance may be adversely affected if the Renminbi depreciates against the U.S. dollar. In addition, following our acquisition of an additional 18% equity interest in HPL, we started to present the financial performance of HPL on a consolidated basis from the acquisition completion date. HPL's procurement of nickel ore in Indonesia mainly uses Indonesian rupiah, which is expected to constitute an important part of our costs for our production business. As a result, when the Indonesian rupiah appreciates against the U.S. dollar, our financial performance may be adversely affected.

Market forces or the government policies of the PRC, Indonesia, the U.S., or any other jurisdictions where we operate may adversely impact the exchange rates between the Renminbi, the Indonesian rupiah, the U.S. dollar or any other corresponding currencies we may use for our business operation or transactions in the future. Movements in the exchange rates among currencies are affected by factors including changes in the respective countries' political and economic conditions and their respective foreign exchange policies. For example, during the Track Record Period, while exchange rates between the U.S. dollar and the Renminbi fluctuated in 2019 and the first half of 2020, the Renminbi has started to generally appreciate against the U.S. dollar from June 2020 to May 2021, and the exchange rates between the U.S. dollar and the Renminbi slightly fluctuated between June 2021 and March 2022. Renminbi further started to generally depreciate against the U.S. dollar between April 2022 and June 2022. As a result, (i) we recorded net exchange losses of RMB12.6 million and RMB15.8 million in 2019 and in the six months ended June 30, 2022, which were recognized as other operating expenses in our consolidated statements of profit or loss, and (ii) we recorded net foreign exchange gains of RMB33.1 million and RMB40.6 million in 2020 and 2021, respectively, which were recognized as other income and gains in our consolidated statements of profit or loss. It is difficult to predict how market forces or the government policies of the PRC, Indonesian or the U.S. may impact the exchange rates between the Renminbi and the U.S. dollar and between the Indonesian rupiah and the U.S. dollar, as applicable, in the future. Any increased costs or reduced revenues as a result of foreign currency exchange fluctuations could adversely affect our margins and financial performance.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. During the Track Record Period, we did not enter into foreign exchange transactions such as long-term or short-term forward and swap contracts to manage our foreign currency risks. However, even if we enter such contracts in the future, the effectiveness of these hedges may be limited, and we may not be able to successfully hedge our exposure, or at all.

Our results of operations and financial condition may be adversely affected by our purchase of derivative financial instruments. We may be exposed to fair value changes for financial assets at fair value through profit or loss.

The derivative financial instruments we purchase include futures products and interest rate swaps. We purchase futures products from time to time to hedge our exposure against price fluctuations of nickel products. We purchase interest rate swaps to hedge our exposure against interest rate fluctuations of our variable-rate bank borrowings.

In connection with the settled futures products, we recorded RMB26.0 million investment income in other income and gains in 2019, primarily as a result of decreases in the LME nickel prices; we recorded RMB10.2 million, RMB41.2 million and RMB87.1 million investment loss in other operating expenses in 2020 and 2021 and the six months ended June 30, 2022, respectively, primarily as a result of increases in the LME nickel prices. In connection with the unsettled futures products, we recorded RMB0.06 million book profit of changes in fair value of futures products under other income and gains in the six months ended June 30, 2022; we recorded RMB6.8 million book loss of changes in fair value of futures products under other operating expenses in 2021, primarily due to fluctuations in nickel prices. As of December 31, 2019, 2020, 2021 and June 30, 2022, our financial liabilities at fair value through profit or loss relating to futures products, which represent fair value losses of the unsettled futures products as of the year end, amounted to nil, nil, RMB6.8 million and nil, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, our financial assets at fair value through profit or loss relating to futures products, which represent fair value gains of the unsettled futures products as of the respective dates, amounted to nil, nil, nil and RMB0.06 million, respectively.

In connection with our interest rate swaps, we recorded RMB44.3 million changes in fair value of financial assets at fair value through profit or loss as of June 30, 2022, as a result of fluctuations in interest rates of our variable-rate bank borrowings.

In relation to the recent Russia-Ukraine conflict, since early March 2022, there has been an unprecedented price spike in the LME nickel price, exceeding US$50,000 per ton. The LME nickel price fluctuated within the price range of US$22,900 per ton to US$35,000 per ton in the second quarter of 2022. Following the LME nickel price spike, we have settled all of our futures contracts on the LME, incurring a total loss of approximately US$3.0 million. If the LME nickel price continues to surge, we may incur additional losses in our futures products and our business and results of operations may be adversely affected if we are to open futures products position again going forward. See "— We are exposed to market fluctuations of prices of nickel, nickel products and other related products" for more details.

We may continue to realize loss in futures products and we cannot assure you that we will continue to generate fair value gain for our derivative financial instruments in the future. If our investments in derivative financial instruments incur a fair value loss or if our financial liabilities continue to increase as a result of our loss in futures products, our results of operations and financial condition may be adversely affected.

Our results of operations and financial condition may be adversely affected by our purchase of wealth management products. We may be exposed to fair value changes for financial assets at fair value through profit or loss.

During the Track Record Period, we invested our cash-on-hand to purchase wealth management products from time to time to improve our profitability. We recorded investment income of RMB3.2 million, RMB1.4 million, RMB0.1 million and nil in other income and gains in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. As of December 31, 2019, 2020, 2021 and June 30, 2022, our closing balance of wealth management products issued by commercial banks and financial institutions in China amounted to RMB187.1 million, RMB152.4 million, nil and RMB76.1 million, respectively. The investment in wealth management products may be subject to various risks that are out of our control, including risks relating to macro-economic environment, general market conditions, as well as risk control and credit of issuing banks, which may adversely affect the net changes in the fair value of these wealth management products. We cannot assure you that market conditions and regulatory environment will create fair value gains on the wealth management products we invest in or that we will not incur any fair value losses on our investments in wealth management products in the future. Although we have adopted a set of internal policies and guidelines to manage our investment in wealth management products, there could be no assurance that such internal policies and guidelines will always be effective, or at all. If we fail to properly manage the risks in relation to our investment in wealth management products and incur such fair value losses, we may incur significant losses, and as a result, our financial condition, results of operations and prospects may be materially adversely affected.

Share-based payment may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

We adopted the Pre-IPO Share Incentive Scheme on October 20, 2021 to incentivize selected employees, supervisors and directors. See "Appendix VII — Statutory and General Information — D. Share Incentive Scheme" for more details. As the share incentive awards were issued under the Pre-IPO Share Incentive Scheme at fair value at the grant date, which was determined by an external valuer by the discounted cash flow method, no share-based payment expenses was charged to profit or loss in 2021. See Note 40 to Appendix IA to this prospectus for more details. As we do not plan to issue additional share incentive awards under the Pre-IPO Share Incentive Scheme, no share-based payment expenses were expected to be charged to profit or loss with respect to such scheme going forward. However, to further incentivize our employees, supervisors and directors, we may grant additional share incentive awards under new share incentive schemes in the future. Issuance of additional Shares under new share incentive schemes may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share-based payment may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

Governmental import or export controls on nickel ore and other nickel products could materially and adversely affect our business, results of operations, financial condition and prospects.

Our raw materials and products, in addition to laterite nickel ore, ferronickel and nickel-cobalt compounds, may be subject to governmental import and export controls, including from China and overseas. Governmental regulations on the import or export of our raw materials products, or our failure to obtain any required import or export authorization for our raw materials and products, if any, may harm our business and adversely affect our revenue. Compliance with applicable regulatory requirements regarding the export of our products may create delays in the introduction of our products in international markets or, in some cases, prevent the export of our products to some countries altogether.

U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to countries, governments and persons targeted by U.S. sanctions. If we fail to comply with export and import regulations and such economic sanctions, we may be fined or subject to other penalties, including a denial of certain export privileges. Moreover, any new import or export restrictions, new legislation or shifting approaches in the enforcement or scope of existing regulations, could result in increased operating costs, or our decreased ability to export our products to existing or potential international customers, which could materially adversely affect our business, results of operations, financial condition and prospects.

Our intra-group transactions may result in adverse tax consequences.

Under applicable tax laws and regulations, our intra-group transactions, primarily related to sales and procurement of tangible goods (including nickel products and equipment) and supporting services among our subsidiaries in the PRC, Singapore and Indonesia, may be subject to audit or scrutiny by the tax authorities in respective jurisdictions. We could face material and adverse tax consequences if the relevant tax authorities believe that the transfer prices of our intra-group transactions were not entered into on an arm's-length basis and therefore constituted unfavorable transfer pricing arrangements. Unfavorable transfer pricing arrangements could, among other things, result in an upward adjustment on taxation, increasing our tax liabilities. Moreover, if the country or territory from which the income is being reallocated after adjustment on taxation does not agree to the reallocation, the same income could be subject to taxation by both countries or territories. As of June 30, 2022, our maximum potential tax exposure arising from the risks associated with our intra-group transactions amounted to approximately RMB3.0 million. See "Business — Transfer Pricing Arrangement — Tax Implication and Compliance" for further details.

Although our Directors are of the view that our intra-group transactions during the Track Record Period were consistent with the arm's length principle and did not involve any tax evasion, we cannot assure you that the transfer pricing laws will not be modified, or the taxation authorities will not challenge our tax filings in the past, which, as a result, may require changes to our transfer pricing arrangements or operating procedures. Any determination of income reallocation or modification of transfer pricing laws could result in an income tax assessment of the portion of income deemed to be derived from the taxation jurisdiction that so reallocates the income or modifies its transfer pricing laws. Our results of operations may be materially and adversely affected if its tax liabilities increase significantly or if they are required to pay interest on late payments. For information related to the commercial rationale, transfer pricing assessment and tax implication and compliance for our intra-group transactions, please see "Business — Transfer Pricing Arrangement."

Under the New EIT Law, we may not be classified as a "high and new-technology enterprise" of the PRC. Such classification could result in unfavorable tax consequences.

Pursuant to the New EIT Law, a high and new-technology enterprise may enjoy a preferential EIT rate of 15%. In December 2019, Xi'an Pengyuan obtained the "Certificate of High and New-Technology Enterprise," with a validity period of three years. The high and new technology EIT rate of 15% enjoyed by Xi'an Pengyuan will expire in December 2022, after which Xi'an Pengyuan may apply for extension review to continue to enjoy favorable tax rate or will be subject to a normal EIT rate of 25% as for all PRC enterprises.

Despite being eligible for the high and new-technology enterprise rate, there is no assurance that Xi'an Pengyuan would remain qualified as a high and new-technology enterprise so as to enjoy the high and new-technology enterprise rate after the expiry of the Certificate of High and New-Technology Enterprise. The effective tax rate for Xi'an Pengyuan will therefore significantly increase and may materially adversely affect Xi'an Pengyuan's profitability, which may have an adverse effect on our business, results of operations and financial condition. There is also no assurance that other subsidiaries of our Group will be eligible to qualify as a high and new-technology enterprise in the future. Furthermore, there can be no assurance that the PRC New EIT Law, its application or its interpretation will not continue to change, in which case the effective income tax rate applicable to us may increase significantly.

A severe or prolonged downturn in the Chinese or global economy, any financial or economic crisis, or perceived threat of such a crisis, could materially and adversely affect our business and financial condition.

The COVID-19 pandemic may continue to have a severe and prolonged negative impact on the Chinese and the global economy. Even before the outbreak of COVID-19, the global macroeconomic environment faced numerous challenges. The growth rate of the Chinese economy has gradually slowed down in recent years and the trend may continue. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which have been adopted by the central banks and financial authorities of some of the world's leading economies, including the

United States and China, even before 2020. The global financial markets experienced significant disruptions in 2008 and the United States, European and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and the global financial markets are facing new challenges, including the escalation of the European sovereign debt crisis since 2011, the hostilities in the Ukraine, and the economic slowdown in the Eurozone in 2014. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. It is unclear whether these challenges will be contained and what effects they each may have. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries such as the Philippines and Indonesia over matters related to the South China Sea, which may potentially have negative diplomatic, political and economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy might lead to tighter credit markets, increased market volatility, sudden drops in business and dramatic changes in business, and may result in lower-than-expected growths of the industries in which we operate or which we serve, and may materially adversely affect our business, results of operations, financial condition and growth prospects.

Our current and future joint ventures and strategic partnership may fall short of expectations or taker longer than expected to materialize.

We currently have joint ventures with our local partner in Indonesia for both the HPAL and RKEF projects. We have also established CBL, our joint venture with one of our nickel-cobalt compound customers, which will be focused on the development and construction of NEV battery projects. We may further look for potential minority investment opportunities in nickel mines in Indonesia. We may continue to evaluate and establish potential joint ventures and strategic partnerships with other appropriate partners to further develop our business. However, we may not realize the anticipated amount of benefits from these joint ventures and strategic partnerships, or it may take longer than anticipated for realize these benefits. The success of these joint ventures and strategic partnerships will depend, in part, on the successful partnership between the relevant partner and us. Such a joint venture or partnership is subject to the risks outlined below, and more generally, to the same types of business risks as would impact our business operations when pursued on a collaborative basis:

- we may not have the right to exercise sole decision-making authority regarding the joint venture;

- our partners may become bankrupt or fail to pay the relevant consideration for the cooperation with us;

- our partners may be subject to negative publicity, which in turn may adversely affect the business operation and financial performances of our joint venture and even our own business reputation;

- our partners' interests may not be aligned with our interests as our partners' economic, political, tax or other business interests or goals may be or change to be inconsistent with our business interests or goals during the course of cooperation, and may take actions contrary to our policies or objectives;

- our partners may take actions unrelated to our business agreement but which reflect adversely on us because of our joint ventures;

- changes in the terms of the arrangements of our partnerships may materially and adversely affect our ability to complete or operate projects we are pursuing or contemplating through joint venture and strategic partnerships;

- disputes between us and our partners may result in litigation or arbitration that would increase our expenses and prevent our management from focusing their time and effort on our business; and

- we may in certain circumstances be liable for the actions of our partner or guarantee all or a portion of the joint venture's liabilities.

We may fail to realize our expectations for the existing or future joint ventures and strategic partnerships, which in turn may materially adversely affect our business, results of operations, financial condition and growth prospects.

We may be involved in legal or other proceedings arising out of our operations, including product liability claims, from time to time and may face significant liabilities as a result.

We may be involved from time to time in disputes with various parties involved in our business operations, including but not limited to our customers, joint venture partners, suppliers, employees, logistics service providers, inspection service providers, construction service providers, research institutes and organizations, insurers and banks. These disputes may lead to legal or other proceedings, which may result in damages to our reputation, substantial costs and diversion of our resources and management's attention. In addition, we may encounter additional compliance issues in the course of our operations, which may subject us to administrative proceedings and unfavorable results, and result in liabilities and delays relating to our production or product launch schedules. We cannot assure you as to the outcome of such legal proceedings, and any negative outcome may materially adversely affect our business, results of operations, financial condition and prospects.

We are also exposed to potential product liability claims in the event that there is any damage caused by defective products. A successful product liability claim against us could require us to pay for substantial damages. Product liability claims against us, whether or not successful, are costly and time-consuming to defend. In the event that our products prove to be defective, we may be required to redesign or recall such products. We cannot assure you that a product liability claim will not be brought against us in the future. A product liability claim, with or without merit, could result in significant adverse publicity against us, and could have a material adverse effect on the marketability of our products and our reputation, which in turn, could have a material adverse effect on our business, financial condition and results of operations.

We may not be adequately insured against losses and liabilities arising from various operational risks and hazards that we are subject to.

We face various operational risks in connection with our businesses, including: production interruptions caused by operational errors; electricity outages; breakdown of equipment and other risks; operating limitations imposed by environmental or other regulatory requirements; social, political and labor unrest; environmental or industrial accidents; and catastrophic events such as fires, earthquakes, explosions, floods or other natural disasters. In particular, we have extensive business operation in Indonesia and the Philippines, and both countries are located in geographic area with a high frequency of natural disasters, including volcanic eruptions, tsunamis and earthquakes. These risks can result in damage to, and destruction of, production facilities, cargos and inventory, personal injury or loss of life, environmental damage, monetary losses and legal liability. The occurrence of any of these events may result in the interruption of our operations and subject us to significant losses or liabilities.

We may not have adequate or any insurance coverage on the above operational risks. We maintain life insurance and travel accident insurance for our employees bases in Indonesia. There can be no assurance that our insurance coverage would be sufficient in case of such major accidents. In the event that we incur substantial losses or liabilities and that our insurance is unavailable or inadequate to cover such losses or liabilities, our business, results of operations, financial condition and prospects could be materially adversely affected.

Our business operations and financial performance have been and may continue to be affected by the COVID-19 pandemic.

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. Since early 2020, different countries and regions where we operate have been affected, and are expected to be continuously affected, by the outbreak and resurgences of COVID-19 (including its existing and future variants) and, in response, governments of these countries and regions have implemented, among other measures, shutdowns, quarantines, restrictions on mobility and travel and cancelation of public activities, to contain the spread of the virus. As a result, prices of our raw materials and finished products have experienced fluctuations, shipping costs have experienced significant increase, and our business as well as the businesses of certain of our suppliers and customers have and may continue to experience delays, disruptions or suspensions.

In particular, we experienced a delay for the construction of the HPAL project, as our engineers and workers are restricted from traveling in and out of the construction site and the transportation of relevant devices, machinery and equipment were affected or delayed from May 2020 to September 2020. Due to similar reasons, the construction of phase I of the RKEF project has also been delayed for three months. Our business was also adversely affected by the rise in shipping costs caused by the continued COVID-19 pandemic. Moreover, crew of the ships we used to transport nickel products, including laterite nickel ore and ferronickel, were often required to go through COVID-19 tests at the loading/unloading ports. If any crew member was tested positive for COVID-19, depending on the specific policy adopted by the loading/unloading port, the ship may either be denied entry, or be required to change that infected crew member before it could receive permission to enter the loading/unloading ports for cargo loading/unloading, adversely affecting our shipping efficiency.

We took a series of measures in response to the outbreak to protect our employees, including, among others, temporary closure of certain of our offices, construction sites and manufacturing facilities, which temporarily reduced the capacity and efficiency of our operations. In addition, we made flight arrangements for our overseas employees and offered protective equipment, COVID-19 tests and vaccines to our employees, which had increased and may continue to increase our operations and support costs. Although we have resumed our office operations, and our construction and production activities have accordingly resumed, our business activities could still be disrupted or suspended if any of our employees is suspected of contracting the COVID-19 or there is resurgence of COVID-19 (including its existing or future variants) or outbreak of any other epidemic disease, since our employees could be quarantined and/or our offices may have to be shut down for disinfection.

There remain significant uncertainties surrounding the further development of COVID-19 as a global pandemic. Any future resurgence of the virus, countries and regions where we or our suppliers operate, including China, Indonesia and the Philippines, may again take emergency measures to combat the spread of the virus, including travel restrictions, mandatory cessations of business operations, mandatory quarantines, work-from-home and other alternative working arrangements, and limitations on social and public gatherings and lockdowns of cities or regions, which may impact our businesses. While the global rollout of vaccines could help control the spread, it is difficult to predict whether the current or future vaccines will remain effective against the existing and future variants of COVID-19. The potential downturn brought by and the duration of the COVID-19 pandemic may be difficult to assess or predict as the actual effects will depend on many factors which may be beyond our control. While we believe the overall impact on our business due to the outbreak of COVID-19 has been limited, it is hard for us to quantify the impact and estimate the extent to which the COVID-19 pandemic will impact our long-term results.

We are exposed to severe weather and climate conditions, acts of God, severe contagious diseases, acts of terrorism or war, and adverse work environments in the PRC and abroad.

Some of our and our suppliers' business activities, particularly those activities related to mining, construction and productions, are conducted outdoors and could be materially and adversely affected by severe weather and climate conditions. We and our suppliers also operate in areas that are under the threat of ice storms, floods, earthquakes, tsunamis, typhoons, volcanic eruptions, landslides, or mudslides. Acts of war and terrorist attacks, including those in Indonesia, the Philippines and other foreign jurisdictions in which we or our suppliers have operations, may cause damage or disruption to us and our suppliers and our respective employees, operations, equipment, facilities and markets, any of which could impact our revenues, cost of sales and reputation. The outbreak of any severe contagious disease such as the severe acute respiratory syndrome in 2003, the H1N1 influenza in 2009 and COVID-19 since the end of December 2019 could also result in interruption of our business. In addition, the physical impacts of climate change on our operations are highly uncertain and will be particular to the geographic circumstances. These may include changes in rainfall patterns, water shortages, rising sea levels, increased storm intensities and higher temperatures. During periods of curtailed activity, we may continue to incur operating expenses, but our revenue from operations may be delayed or reduced. Such events could also have severe effects on the overall business sentiment and environment in China and worldwide, and may in turn lead to a slower economic growth in China or globally, which may have a material adverse effect on our business, operating results and financial condition.

In addition, we conduct some of our operations under a variety of challenging geographical and other conditions, including difficult terrains, harsh conditions, long distance between islands, busy urban centers where delivery of materials and availability of labor may be affected and sites which may have been exposed to environmental hazards. Such conditions may result in personal injuries or fatalities or have a negative effect on our work performance and efficiency.

Indonesia is located in one of the most volcanically active regions in the world and is subject to significant seismic activity that can lead to destructive earthquakes and tsunamis, or tidal waves. Although the Indonesian government has invested a significant amount of resources in disaster prevention, we cannot assure you that the occurrences of natural disasters in the future will not affect our production facilities on Obi Island, or that we can receive timely and adequate assistance and resume production efficiently and effectively after the disaster occurs. In addition, a significant earthquake, geological disturbance or tsunami affecting any of Indonesia's more populated cities could severely disrupt the Indonesian economy and undermine investor confidence, thereby materially and adversely affecting us.

The Philippines is located in a geographic area that is prone to typhoons, which can regularly have adverse impact on our trading business of laterite nickel ore, and such an impact may intensify and become more unpredictable if the global climate change intensifies. For more details, see "— We are exposed to the market forces in the nickel industry." At the same time, the Philippines is often affected by natural disasters including volcanic eruption and earthquakes. These disasters may result in a reduction in, or the suspension of, the production activities of our local partners' mines and other facilities, which in turn may materially and adversely affect our trading activities.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Relevant requirements of the State Council and the CSRC may have an uncertain impact on our Global Offering and future fundraising activities.

On December 24, 2021, the CSRC issued the Provisions of the State Council on the Administration of the Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), which sets forth certain requirements on the overseas issuance and listing by domestic enterprises, mainly including: (I) requiring domestic enterprises to perform filing procedures regarding overseas issuance and listing with the securities regulatory authorities of the State Council, report relevant information, and that the filing materials shall be true, accurate and complete and shall not contain false records, misleading statements or make major omissions; (II) setting out the conditions for overseas issuance and listing of domestic enterprises; (III) requiring domestic enterprises to comply with the regulations in relation to foreign investment, Internet security and data security, and if security review is involved, to perform the security review procedures; (IV) requiring domestic enterprises to establish the articles of association, improve internal control system, and standardize corporate governance and financial and accounting practices in accordance with the PRC laws and regulations; and (V) requiring domestic enterprises to abide by national laws and regulations and relevant rules, establish and improve confidentiality system, and that damages to national security and public health is prohibited.

On December 24, 2021, the CSRC issued the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) based on the Provisions of the State Council on the Administration of the Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments), provided for the overseas issuance and listing by domestic enterprises and their overseas issuance of listed bonds after listing, mainly including: (i) for domestic enterprises that directly issue and list securities overseas, the issuer shall perform the filing procedures, and report relevant information; after the issuer's filing and before the completion of overseas issuance and listing, any major changes in main businesses or business license qualifications, shareholding structure or changes in controls, and major adjustments to the issuance and listing plan should be reported to the CSRC in a timely manner and the issuer shall update the filing information within three working days from the date of the occurrence of the relevant matters; (ii) for overseas listed securities to be issued after overseas issuance and listing, the issuer shall, within three working days after the completion of the issuance, submit filing materials to the CSRC; if the issuer would issue overseas listed securities to purchase assets after overseas listing, it shall perform relevant filing procedures in accordance with the requirements of the Administration Measures for the Overseas Listing (Draft for Comment); if there is any change in its controls after its overseas listing and investigation or punishment by the relevant competent authorities, and any circumstance that the issuer voluntarily terminates the listing or is forced to terminate the listing, the issuer shall report to the CSRC within three working days from the date of the change; if the domestic enterprises issue and list directly overseas, they shall prepare the articles of association with reference to the Guidelines for Articles of Association of Listed Companies to standardize the corporate governance; and (iii) if the issuer violates the Administration Measures for the Overseas Listing (Draft for Comment), the CSRC and the relevant competent departments of the State Council may, according to the seriousness of the circumstances, order to make corrections or conduct regulatory talks, issue warning letters and take other measures, or investigate legal responsibilities in accordance with the law.

The deadline for feedback on the Provisions of the State Council on the Administration of the Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) is January 23, 2022. As of the Latest Practicable Date, there has been no update in relation to the enactment of these regulations. When these regulations will take effect and the extent of impact of these regulations on us when they come into effect are still uncertain.

The Draft Overseas Listing Regulations are not clear on the exact criteria for qualified issuers who must complete the CSRC filing procedures after submitting the application for an initial public offering overseas, and are not clear on whether qualified issuers which have submitted the application for initial public offering overseas but have not yet completed the listing process shall be subject to the said CSRC filing procedures. Although according to the existing text of the Draft Overseas Listing Regulations, the Global Offering could be subject to the proposed expanded regulatory scope of the CSRC and the proposed report and filing procedures for constituting a "direct overseas offering and listing by a PRC company". We cannot predict the impact of the Draft Overseas Listing Regulations on the Global Offering, if any, at this stage, and we will closely monitor and assess any development in the rule-making process.

Notwithstanding the foregoing, we have, in accordance with the existing Securities Law of the People's Republic of China (《中華人民共和國證券法》) and the Special Regulations of the State Council concerning Floating and Listing of Shares Overseas by Joint Stock Limited Company (《國務院關於股份有限公司境外募集股份及上市的特別規定》), obtained the Reply Approval in Respect of Lygend Resources & Technology Co., Ltd. Global Offering of Listed Foreign Shares (H shares) on Main Board of The Stock Exchange of Hong Kong Ltd (Zhengjianxuke [2022] No. 1714) (《關於核准寧波力勤資源科技股份有限公司首次公開發行境外上市外資股（H股）並在香港聯合交易所主板上市的批覆》(證監許可[2022]1714號)) by the CSRC in relation to our Global Offering on August 2, 2022. As advised by our PRC legal advisors, we have completed all the necessary domestic procedures in relation to our Global Offering under the currently effective PRC laws and regulations.

At this stage, we are unable to rule out the possibility that the relevant authorities may enact additional regulations to restrict or raise new compliance requirements for our business and the Global Offering. Therefore, we cannot guarantee that the CSRC or other PRC authorities will not require us to complete other procedures for the Global Offering, which may have a material adverse effect on our business, results of operations, financial condition as well as the Global Offering.

Changes in the PRC's economic, political and social conditions as well as governmental policies could affect our business, financial condition and results of operations.

In 2019, 2020, 2021 and the six months ended June 30, 2022, we derived a majority of our revenues from mainland China. As a result, our revenues and net income are impacted to a large extent by economic, political and social conditions in China and globally. China's economic conditions are sensitive to global economic conditions. The global financial markets have experienced significant disruptions since 2008 and the United States, Europe and other economies have experienced periods of recession. The global macroeconomic environment is facing new challenges and there is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies. Recent international trade disputes, including tariff actions announced by the United States, the PRC and certain other countries, and the uncertainties created by such disputes may cause disruptions in the international flow of goods and services and may adversely affect the Chinese economy as well as global markets and economic conditions. There have also been concerns about the economic effects of the military conflicts and political turmoil or social instability in the Middle East, Europe, Africa and other places. The global economy, markets and levels of consumer spending are influenced by many factors which may be beyond our control, including consumer perception of current and future economic conditions, political uncertainty, levels of employment, inflation or deflation, real disposable income, interest rates, taxation and currency exchange rates. Any severe or prolonged slowdown in the global economy may adversely affect the Chinese economy which in turn may adversely affect our business, results of operations, financial condition and prospects.

The rate of economic growth in the PRC has been experiencing a slowdown, primarily as a result of the COVID-19 pandemic. In addition, any future escalation of the ongoing trade war between the United States and China, regional or national instability, or ongoing impact of the COVID-19 pandemic may negatively impact the growth in both the Chinese economy and the global economy as a whole. Although the PRC government has implemented a number of measures to address the economic slowdown, it is uncertain if these measures will be successful. Any continuing or worsening economic slowdown could significantly reduce growth rates of the industries in which we operate or which we serve. An economic downturn, whether actual or perceived, a further decrease in economic growth rates, or an otherwise uncertain economic outlook in China or any other market in which we may operate could have a material adverse effect on our business, financial condition, results of operations and prospects.

The Chinese government's control of foreign currency conversion may limit our foreign exchange transactions.

Currently, Renminbi still cannot be freely exchanged into any foreign currencies, and exchange and remittance of foreign currencies are subject to the PRC foreign exchange regulations. It cannot be guaranteed that, under a certain exchange rate, we will have sufficient foreign currencies to meet our demand for foreign currencies. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us do not require advanced approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at financial institutions within the PRC that have the license to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE except foreign exchange capital, foreign debts and repatriated funds raised through overseas listing. If we fail to obtain approval from the SAFE to exchange the Renminbi into any foreign currencies for any purposes, our capital expenditure plans, and even our business, results of operations, financial condition and prospects, may be materially adversely affected. In addition, the PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future. If the Chinese foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to the holders of our H Shares.

Our labor costs may increase for various reasons including the implementation of the PRC Labor Contract Law and related regulation, labor shortage or inflation in the PRC.

As of June 30, 2022, we had 2,405 employees in the PRC. The PRC Labor Contract Law (《中華人民共和國勞動合同法》) was issued on June 29, 2007 and became effective on January 1, 2008 in the PRC and its amendments were on December 28, 2012 and became effective on July 1, 2013. It imposes stringent requirements on employers in relation to entry into fixed-term employment contracts and dismissal of employees. For example, pursuant to the PRC Labor Contract Law, an employer is required to make a compensation payment to a fixed-term contract employee when the term of his or her employment contract expires, if the employer does not propose to renew the employment contract with such employee with contract terms that are the same or better. A minimum wage requirement has also been incorporated into the PRC Labor Contract Law. In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which was issued on December 14, 2007 and became effective on January 1, 2008, employees who have worked continuously for more than one year are entitled to paid annual leave ranging from 5 to 15 days, depending on the length of the employees' service. Employees who consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived.

As a result of the PRC Labor Contract Law and the Regulations on Paid Annual Leave for Employees, our labor costs may increase. Further, under the PRC Labor Contract Law, the employer may be required to compensate when an employer terminates its PRC employees' employment. In the event that we decide to significantly change or decrease our workforce, the PRC Labor Contract Law could adversely affect our ability to effect these changes in a cost-effective manner or in the manner that we desire, which could result in an adverse impact on our business, financial condition and results of operations.

Further, if there is a shortage of labor or for any reason the labor cost in the PRC rises significantly, our production costs are likely to increase. This may in turn affect the selling prices of products, which may then affect the demand for such products and thereby adversely affect our sales and financial condition. Increase in costs of other components required for production may cause similar adverse effects, particularly if we are unable to identify and employ other appropriate means to reduce the costs of production. In such circumstances, the profit margin may decrease and the financial results may be adversely affected.

In addition, inflation in the PRC has increased in recent years. According to the National Bureau of Statistics of the PRC, consumer price inflation in the PRC was 2.9%, 2.5% and 0.9% in 2019, 2020 and 2021, respectively. Inflation in the PRC increases the costs of labor and other costs for production. Rising labor costs may increase our operating costs and partially erode the cost advantage of our operations and therefore negatively impact our profitability.

Failure to comply with the PRC labor laws and regulations in relation to social insurance and housing fund contributions for our employees could subject us to fines and other legal or administrative sanctions.

We are required to contribute to a number of social insurance funds, including funds for pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance, maternity insurance and housing provident fund on behalf of our employees in China.

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 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 (社會保險登記證) for its employees and to pay the social insurance contributions on time and in full. We have paid social insurance and housing provident fund contributions for our current employees (except certain exceptional cases including those who have reached retirement age, part-time employees and interns). However, the amounts of contributions payable were not calculated based on the employee's average salary for the preceding 12 months, but is determined according to the employee's internal rank in our Group, as agreed between our employees and us. According to CIC, such arrangement with respect to the payment of social insurance and housing provident fund contributions is common in the PRC. However, there is no assurance that our historical and current practice with respect to the contribution of social insurance plans and housing provident funds will be deemed in full compliance with relevant PRC laws and regulations by PRC government authorities. In the event of any such non-compliance, we may be required to pay any shortfall in social insurance and housing provident funds contributions within a prescribed time period and to pay penalties if we fail to do so. We have made full provision for the underpaid amounts of our social insurance and housing provident fund contributions as at December 31, 2019, 2020, 2021 and June 30, 2022, which amounted to approximately RMB22.9 million, RMB17.6 million, RMB40.6 million and RMB63.3 million, respectively.

As advised by our PRC Legal Advisor, if our historical and current practice is deemed to be non-compliant with relevant PRC laws and regulations by PRC government authorities, the relevant PRC authorities may request us to pay the outstanding social insurance contributions within a stipulated deadline and pay an overdue charge equal to 0.05% of the outstanding amount for each day of delay. Such overdue charge, if requested to be paid by the relevant government authorities as of June 30, 2022, amounted to approximately RMB5.8 million. If we fail to repay the outstanding social insurance contributions within the prescribed period, we may be liable to a fine of one to three times the outstanding contribution amount. If we fail to make payments of outstanding housing fund contributions prior to the deadline, we may be subject to an order from the relevant people's courts to make such payment.

According to the Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the Standing Committee of the National People's Congress on July 5, 1994 and became effective on January 1, 1995 and was amended on December 29, 2018, we are required to maintain a system of daily working hours for each worker not in excess of eight hours and average weekly working hours not in excess of 44 hours. In addition, according to the Provisions of the State Council on the Working Hours of Employees (《國務院關於職工工作時間的規定》), which was promulgated by the State Council on February 3, 1994 and became effective on March 1, 1994 and was last amended on March 25, 1995 and became effective on May 1, 1995, the daily working hours of an employee shall be eight hours and the weekly working hours of an employee shall be 40 hours. However, according to the Notice on Issuing the Measures for the Examination and Approval of Flexible Working Hours Arrangement and Comprehensive Working Hours Scheme Adopted by Enterprises (《關於企業實行不定時工作制和綜合計算工時工作制的審批辦法》), which was promulgated by the Ministry of Labor on December 14, 1994 and became effective on January 1, 1995, enterprises that are not in a position to maintain a system of daily and weekly working hours under the Labor Law of the PRC due to particularities of their production may adopt a flexible working hours arrangement or comprehensive working hours scheme and other measures for work and rest. Local measures for work and rest such as flexible work hours work systems or comprehensive work hours work systems shall be formulated by the labor administration department of the various provinces, and filed with the labor administration department of the State Council. Should any of our subsidiaries adopt a flexible working hours arrangement in the future, we cannot assure you that such arrangement will be deemed to have complied with the relevant regulations, or that the relevant labor administrative departments will not deem the excess working hours as overtime working hours, and thus order our relevant subsidiaries to pay our employees overtime wages, which will lead to an increase in our labor costs.

In addition to the above, if we fail to comply with any other relevant PRC labor laws and regulations, we may be exposed to penalties or be required to pay damages to employees. For example, if any of our PRC subsidiaries engaging in manufacturing fails to comply with the relevant laws on prevention and treatment of occupational diseases, then such a subsidiary may be subject to fines and other administrative penalties, and any employees who are deemed to suffer from occupational diseases may also have rights to seek compensation from us. Compliance with the relevant PRC labor laws and regulations could substantially increase our labor costs. Increases in our labor costs and future disputes with our employees could adversely affect our business, results of operations, financial condition and prospects. In particular, an increase in labor costs in China could increase our production costs in the future and we might not be able to pass these increases on to our consumers due to competitive pricing pressure.

Present or future environmental, safety and occupational health laws and regulations in the PRC may have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to certain PRC laws and regulations relating to environmental, safety and occupational health matters. Under these laws and regulations, we are required to maintain safe production conditions and protect the occupational health of our employees. While we conduct periodic inspections of our operating facilities and carry out equipment maintenance on a regular basis to ensure that our operations are in compliance with applicable laws and regulations, we cannot assure you that we will not experience any material accidents or worker injuries in the course of our manufacturing process in the future.

In addition, our manufacturing process produces pollutants such as waste water, slags, noise, fume, smoke and dust. The discharge of waste water and other pollutants from our manufacturing operations into the environment may give rise to liabilities that may require us to incur costs to remedy such discharge. We cannot assure you that all situations that will give rise to material environmental liabilities will be discovered or any environmental laws adopted in the future will not materially increase our operating costs and other expenses. Should the PRC impose stricter environmental protection standards and regulations in the future, we cannot assure you that we will be able to comply with such new regulations at reasonable costs, or at all. Any increase in production costs resulting from the implementation of additional environmental protection measures and/or failure to comply with new environmental laws or regulations may have a material adverse effect on our business, financial condition or results of operations.

Uncertainties with respect to the PRC's legal system could limit the legal protections available to you and us. Holders of our H Shares may not be able to enforce their rights successfully as shareholders in the PRC according to the PRC Company Law or Hong Kong regulatory provisions.

Some of our operating subsidiaries are incorporated under and governed by the laws of the PRC. The PRC's legal system is based on written statutes. Prior court decisions may be cited for reference, but have limited precedential value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade. As a significant part of our business is conducted in the PRC, our operations are principally governed by PRC laws and regulations. However, since the PRC's legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. Furthermore, certain important aspects of the PRC corporate law are different from the corporate laws of common law jurisdictions such as Hong Kong and the United States, particularly with respect to investor protection, such as shareholder class action suits and measures protecting non-controlling shareholders, restrictions on directors, disclosure requirements, different rights of classes of shareholders, general meeting procedures and disbursement of dividends. Our Articles of Association include provisions in accordance with the Hong Kong Listing Rules. Although such provisions have been included, we cannot assure you that no discrepancy exists between the protections given to our investors and those given to investors in companies formed in common law jurisdictions. Intellectual property rights and confidentiality protections in the PRC may not be as effective as in Hong Kong, the United States or other countries or regions. In addition, we cannot predict the effect of future developments in the PRC's legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention.

Changes in tax regulations and failure to comply with such tax regulations in the PRC may adversely affect our business and financial results.

The New EIT Law effective in 2008 and amended in 2018 imposes a tax rate of 25% on business enterprises in the PRC. Some of our subsidiaries are entitled to preferential tax treatment. For instance, as a high and new technology enterprise, our subsidiary Xi'an Pengyuan enjoys a preferential EIT rate of 15%. To the extent there are any changes in, non-renewal or withdrawals of, our preferential tax treatment, or increases in the effective tax rate, our tax liability would increase correspondingly. In addition, the PRC government from time to time adjusts or changes its policies on value-added, business, resources, fuel and oil, property development and other taxes. Non-compliance with the PRC tax laws and regulations may also result in penalties or fines imposed by relevant tax authorities. Adjustments or changes to the PRC tax laws and regulations and tax penalties or fines could have an adverse effect on our business, financial condition and results of operations.

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

Under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to taxes with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares. Non-PRC individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) with respect to PRC source income or gains at a rate of 20% unless specifically exempted by the tax authority of the State Council or reduced or eliminated by an applicable tax treaty. We are required to withhold related tax from dividend payments.

Pursuant to applicable regulations, domestic non-foreign-invested enterprises issuing shares in Hong Kong may generally, when distributing dividends, withhold individual income tax at the rate of 10%. However, withholding tax on distributions paid by us to non-PRC individuals may be imposed at other rates pursuant to applicable tax treaties (and up to 20% if no tax treaty is applicable) if we know the identity of the individual shareholder and the tax rate applicable thereto. There is uncertainty as to whether gains realized upon disposition of Shares listed on an overseas stock exchange by non-PRC individuals are subject to the PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or that have establishments or premises in the PRC but their income is not related to such establishments or premises, are subject to the PRC EIT at the rate of 10% on dividends received from PRC companies and gains realized upon disposition of equity interests in the PRC companies pursuant to the New EIT Law and other applicable PRC tax regulations and statutory documents. Taxes may be reduced or eliminated under special arrangements or applicable treaties between the PRC and the jurisdiction where the non-resident enterprise resides.

Pursuant to applicable regulations, we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of our H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to verification by PRC tax authorities.

There remain significant uncertainties as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including whether and how individual income tax on gains derived by holders of our H Shares from their disposition of our H Shares on the overseas stock exchange may be collected. If any such tax is collected, the value of our H Shares may be materially and adversely affected. For more details, please see "Appendix IV — Taxation and Foreign Exchange."

It may be difficult to effect service of process or to enforce any judgments obtained from non-PRC courts against us or our respective management residing in the PRC.

A substantial majority of our Directors and executive officers reside within the PRC, a substantial majority of our subsidiaries are located in the PRC, and a substantial amount of our assets are located in the PRC and Indonesia. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or our respective management including for matters arising under applicable securities law.

Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. If a final and conclusive judgment made by a Hong Kong court is applied for recognition and enforcement in the PRC, the relevant PRC court shall examine it in accordance with the international treaties concluded or acceded to by the PRC or with the principle of reciprocity. In this regard, so far as we know, there exists Supreme People's Court, Arrangement of the Supreme People's Court between China and Hong Kong on Reciprocal Recognition and Enforcement of the

Decisions of Civil and Commercial Cases under Consensual Jurisdiction (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) ("**Arrangement**") regarding the recognition and enforcement of the civil and commercial judgment between the PRC and Hong Kong, which is applied where an agreement is subject to the exclusive jurisdiction of the Hong Kong court or the PRC court (as the case may be).

Insofar as PRC laws are concerned and after examination by the PRC courts in accordance with the Arrangement and concluding no contradiction of the basic principles of PRC laws or violation of state sovereignty, security and social and public interest of the country, the PRC court would recognize it by a ruling and, where necessary, issue an order of enforcement to enforce it according to the procedures specified by the PRC laws pursuant to the Arrangement, subject to compliance with applicable provisions of the Civil Procedure Law relating to the enforceability of judgments rendered by foreign courts.

A judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. However, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and many other countries with respect to civil and commercial matters. As a result, recognition and enforcement in the PRC of judgments from various jurisdictions is uncertain.

Inflation in China could negatively affect our growth and profitability.

Economic growth in the PRC has, during certain periods, been accompanied by periods of high inflation, and the Chinese government has implemented various policies from time to time to control inflation. For example, the Chinese government introduced measures in certain sectors to avoid overheating of the Chinese economy, including increasing interest rates and capital reserve thresholds at Chinese commercial banks. The effects of the stimulus measures implemented by the Chinese government since the global economic crisis that commenced in 2008 and the continued growth in the overall economy since then have resulted in sustained inflationary pressures. If these inflationary pressures continue and are not mitigated by Chinese government measures, our cost of sales will likely increase and our profitability could be materially reduced, as there is no assurance that we would be able to pass any cost increases on to our customers.

We are exposed to risks associated with failing to detect and prevent fraud, negligence or other misconduct (accidental or otherwise) committed by our employees or third parties.

We are exposed to risk associated with fraud or other misconduct committed by our employees, or third parties that could subject us to financial losses and sanctions imposed by governmental authorities as well as seriously harm our reputation. For example, theft conducted by third parties may cause us to make compensation if we were held to be negligent or reckless and will also cause us to suffer damage to our reputation in the market.

Our internal control systems and procedures are designed to monitor our operations and overall compliance. However, they may be unable to identify non-compliance and/or suspicious transactions in a timely manner, or at all. Further, it is not always possible to detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective. There will therefore continue to be the risk that fraud and other misconduct may occur, including negative publicity as a result, which may have an adverse effect on our business, reputation, financial position and results of operations.

RISKS RELATING TO OUR OVERSEAS OPERATIONS

We are exposed to risks associated with our overseas operations.

Once the construction of HPAL and RKEF projects is completed and all our production lines are put into operation, a substantial part of our production of nickel-cobalt compounds and related business operations will be conducted in Indonesia. As of the Latest Practicable Date, we also have operations in the Philippines and Singapore. Our operations in the Philippines are primarily related to our trading of laterite nickel ore, while our operations in Singapore are primarily related to entrepot trade. We also procure laterite nickel ore from countries and regions including Turkey and New Caledonia and may in the future operate and have investments in other places in the world. These countries and regions have different legal frameworks and government policies. Our business, financial condition and results of operations are subject to risks and uncertainties relating to the relevant countries in which we operate or have investments, including but not limited to:

- exposure to international, regional and local economic and political conditions and regulatory policies;
- exposure to different legal standards and ability to enforce contracts in some jurisdictions;
- changes in legal developments and enforcement risks;
- control of foreign exchange and fluctuations in foreign exchange rate;
- developments in labor law and increase in staff cost;
- failure to negotiate the collective labor agreements on satisfactory terms with trade unions;
- restrictions or requirements relating to foreign investments;
- limitations on repatriation of earnings, including withholding and other taxes on remittances and other payments by subsidiaries;
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations;

- failure to protect our reputation from negative publicity against us; and
- limitation on ability of non-nationals to reside and work in such countries.

Our business operations are affected by the economic, political and legal developments of the places where we or our business partners operate. There can be no assurance that economic, political or legal systems of those places will not develop in a way that is detrimental to our business, results of operations and prospects.

We are exposed to risks associated with our operations in Indonesia.

As of the Latest Practicable Date, we have two production lines put into operation and are constructing another four production lines (including the production lines of nickel sulfate and cobalt sulfate) under the HPAL project and 20 RKEF production lines under the RKEF project, on the Obi Island, Indonesia. Accordingly, our business, prospects, financial condition and results of operations may be adversely affected by social, political, regulatory and economic developments in Indonesia. Risks associated with these negative developments include, but not limited to, the risks of war, regional conflicts, terrorism, extremism, nationalism, expropriation of our assets, nullification of contracts, changes in interest rates, imposition of capital controls, changes in government policies or changes on rules or regulations concerning mining, production and export of nickel-related products, labor (including labor activism), currency exchange, foreign direct investment, importation, environmental regulations, changes in interest rates, economic growth, national fiscal and monetary policies, inflation, deflation, methods of taxation and tax policy. In addition, any changes implemented by the local government resulting, among others, in currency and interest rate fluctuations, capital restrictions, and changes in duties and taxes detrimental to our business could materially and adversely affect the business operation of the new production plant. If any of the risks associated with any negative developments materializes, it may adversely affect our business, financial condition, results of operations and prospects. As Indonesia is expected to remain as one of our markets and places of operation in the foreseeable future, negative developments in Indonesia economy may have a material adverse effect on our business, financial condition, and results of operations.

Furthermore, the ongoing outbreak and future resurgences of COVID-19 (including its existing and future variants) have caused, and may continue to cause in the future, adverse impact on our business operation, including construction and operation of the production lines. The measures taken by the governments against COVID-19 (including its existing and future variants), including quarantines and restriction on travel in and out of Indonesia, have not only caused disruption and delays in our business operations, but also adversely affected the psychology and daily life of our employees, especially those employees we dispatched from China. To help them cope with the uncertain and evolving situations, we have taken various measures, including making flight arrangements for our overseas employees, offered protective equipment, conducted COVID-19 tests and vaccines to our employees, and we have accordingly incurred additional expenses and costs. If the outbreak of COVID-19 (including its existing and future variants) continues, our business operations may continue to be adversely affected and we may continue to incur expenses related to the COVID-related support we offer to our employees working in Indonesia, which in turn may adversely affect our business, financial condition, and results of operations. In addition, to the extent the COVID-19 outbreak could severely disrupt the Indonesian economy and undermine investor confidence, our financial condition or results of operations and the market value of our securities may also be materially and adversely affected.

In addition, we cooperate with our Indonesian Partner in the construction and operation of the Obi projects. We do not have any control over our Indonesian Partner, and we may in certain circumstances be liable for their actions. See "Risks Related to Our Business and Industry — Our current and future joint ventures and strategic partnership may fall short of expectations or taker longer than expected to materialize" for more details.

There may be instances of non-compliance in our operations in Indonesia.

Our operations in Indonesia are subject to relevant laws and regulations, some of which contain ambiguities that may potentially result in unintended non-compliances in our Indonesian operations. As of the Latest Practicable Date, HPL, our 54.9% owned subsidiary and the project company of phases I and II of the HPAL project, and HJF, the project company of phase I of the RKEF project and in which we hold a 36.9% equity interest, have not obtained their own environmental impact analysis ("**AMDAL**") and environmental licenses, and instead have been relying on the AMDAL and environmental license of our Indonesian Partner. Based on Article 22 Paragraph 5 of the Government Regulation No. 22 Year 2021 concerning Implementation of Environmental Protection and Management ("**GR No.22/21**"), because the projects operated by HPL and HJF are located in the same area of that of our Indonesian Partner, HPL and HJF can use and integrate their activities into our Indonesian Partner's AMDAL and environmental licenses. This is also confirmed by the confirmation letters issued by the Environmental Services of the Ministry of North Maluku, which, according to our Indonesian legal advisor, is the competent authority for HPL and HJF's AMDAL and environmental licenses, on March 25, 2022, which confirmed that HPL and HJF's AMDAL and environmental licenses shall be integrated with that of our Indonesian Partner. Based on the foregoing, our Indonesian legal advisor, Imran Muntaz & Co., is of the view that HPL and HJF can rely on our Indonesian Partner's AMDAL and environmental licenses, and are not required to obtain their own AMDAL and environmental licenses. However, if future Indonesian laws require our current and future Indonesian subsidiaries to obtain additional licenses or permits, there is no assurance that they will be able to obtain such licenses within the prescribed time frame, or at all, in which case our operations in Indonesia may be adversely affected.

We cannot guarantee that we will be successful in our application for, or that we will continue to receive, the industrial incentives, tax breaks and exemptions, and other favorable government treatments potentially applicable to us in Indonesia in the future.

Pursuant to the Indonesian Tax Law, a VAT is generally applicable at a rate of 10% on the deliveries of goods and services within the Indonesian Customs Area whereas a general flat rate of

22% applies as Corporate Income Tax (CIT). Under the relevant industry policy introduced by the Indonesian government, the Indonesian government provided us with a decree on which we enjoy a ten-year CIT exemption, tariffs exemption in connection with the construction of the HPAL and RKEF projects, VAT rebate and product export tax rebate as of the Latest Practicable Date. We cannot assure you that we can continue to enjoy these tax benefits and exemptions in the future, nor can we assure you that the Indonesia Corporate Income Tax Law, its application and interpretation, or the industry policy applicable to us will not change, in which case the tax benefits and exemptions may be reduced or canceled and the effective income tax rate applicable to us may increase significantly.

Furthermore, there is no assurance that there will not be any change in laws or regulations or change in the interpretation of laws or regulations by tax authorities of Indonesia in the future which may result in our contractual arrangement with our local partner in Indonesia being scrutinized by the tax authorities and higher tax rates or additional tax being imposed on and incurred by our Indonesian subsidiaries in connection with our relevant contractual arrangements with our local partner in Indonesia and thereby adversely affecting our business, results of operations and financial condition.

Labor activism could adversely affect our business in Indonesia.

Our construction, and the future operations, of production lines under the HPAL and RKEF projects are labor intensive. Our business operations on the Obi Island have not been materially affected by any significant labor dispute in the past. However, we may, in the future experience labor unrest, activism, disputes or actions involving our employees any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, laws permitting the formation of labor unions, combined with weak economic conditions, have resulted, and may continue to result, in labor unrest in Indonesia. On March 25, 2003, the Indonesian government enacted Law No. 13 Year 2003 regarding Manpower, last amended by the Law No. 11 Year 2020 regarding Job Creation (the "**Manpower Law**"). The Manpower Law, among other things, and subject to certain procedural requirements, gives the right to employees to strike. Due to the active involvement of various non-governmental organizations, employees' awareness of Indonesian employment regulations has also increased during the last several years. The Manpower Law, existing Indonesian employment regulations and any manpower regulations and laws adopted in Indonesia aim the future may have an impact on the business environment, including ours, which may limit our ability to downsize or implement flexible labor policies.

Furthermore, to terminate employment in Indonesia, we must follow certain steps before we can permanently terminate our labor relationship with the employee when there is a breach of contract by the same employee, unless the employee commits serious breach (e.g. criminal action). Such steps include bipartite forum between us and the employee, tripartite forum between us, the employee, and the manpower department of Indonesia.

Labor unrest and activism in Indonesia could disrupt our operations, the operations of our suppliers, joint venture partners, or contractors and could affect the financial condition of our Indonesian subsidiaries in general. Any of such events could have a material adverse effect on our business, financial condition, results of operation and prospects. We had not been subject to any damages and loss resulting from this risk during the Track Record Period and up to the Latest Practicable Date.

The legal systems in Indonesia and the Philippines are subject to considerable discretion and uncertainty.

A substantial portion of our business and operations are conducted in Indonesia and the Philippines and are governed by laws and regulations of Indonesia and the Philippines, respectively. Both jurisdictions are not a purely common law system like Hong Kong and are subject to considerable discretion and uncertainty.

Indonesia's legal system is a civil law system based on written statutes in which judicial and administrative decisions do not constitute binding precedents and are not systemically published. Indonesia's commercial and civil laws are historically based on Dutch law as in effect prior to Indonesia's independence in 1945. Some of these laws have not been revised to reflect the complexities of modern financial transactions and instruments. There may be uncertainty in the interpretation and application of legal principles in Indonesia. The application of legal principles in Indonesia depends upon subjective criteria such as the good faith of the parties to the transaction and principles of public policy, the practical effect of which is difficult or impossible to predict. Indonesian judges have very broad fact-finding powers and a high level of discretion in relation to the manner in which those powers are exercised. Therefore, any judgment made by the same judge may differ from one case to another. In addition, in Indonesia, judges are not bound by previous rulings, and any jurisprudence only serves as a non-binding reference. As a result, the administration and enforcement of laws and regulations by Indonesian courts and Indonesian governmental agencies may be subject to considerable discretion and uncertainty.

Unlike the common law system in Hong Kong, the Philippine legal system is an unusual mixture of common law and civil law principles. Additionally, the Philippine legal system continues to evolve rapidly, the interpretations of many laws, rules and regulations may not always be the same and enforcement of such laws, rules and regulations involves uncertainties, which may limit the legal protections available to us. Moreover, we cannot predict the effect of future developments in the Philippine legal system, including the changes to existing laws, the enforcement or interpretation of laws, promulgation of new laws, or the pre-emption of local rules and regulations by the national laws. These uncertainties could limit the legal protections available to us and the foreign investors. Further, any litigation in the Philippines may be protracted and may result in substantial costs and diversion of our resources and management attention.

Terrorist activities in Indonesia and the Philippines may lead to substantial adverse effect on the local social stability and economic development.

Both Indonesia and Philippines have experienced terrorist activities in recent year. In Indonesia, with last major terrorist attack occurred in March 2021, there have been various terrorist attacks directed towards the government buildings, government officials, foreign governments, religious institutions, and public and commercial buildings all over the country, which have killed and injured a number of people, either civilian, police or military. We cannot assure you that further terrorist acts will not occur in the future. Acts of terrorism in Indonesia could destabilize Indonesia, leading to social, political and economic instability and unrest. Violent acts arising from and leading to instability and unrest have in the past had and may continue to have a material adverse effect on investment and confidence in and the performance of the Indonesian economy and may have a material adverse on the operation of our facilities on the Obi Island, its financial condition, the results of operations and future prospects.

The Philippines has also been subject to a number of terrorist attacks since 2000, and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy, which in turn may have a material adverse on our business operations in the Philippines.

Territorial disputes and other diplomatic conflicts between Indonesia, the Philippines and China may adversely affect our business operations.

The Philippines, Indonesia, China and several other Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the South China Sea. The "nine-dash line" area claimed by China covers most of the South China Sea and overlaps with the exclusive economic zone claims of countries including Indonesia, with respect to the Natuna Islands (with a recent incident involving Natuna Islands taking place in December 2021), and the Philippines, with respect to a group of small islands and reefs known as the Scarborough Shoal. Indonesia, the Philippines and China made several efforts, including diplomatic, legal and military means, to assert their territorial claims, and these actions sometimes lead to diplomatic frictions, exchange of verbal threats, and even temporary disruptions of trade and movement of people among these countries. These disputes have caused in the past, and may continue to cause in the future, anti-China sentiment in Indonesia and the Philippines, which may in turn adversely affected our business operation in these countries. Should these territorial disputes continue or escalate further, the Philippines and Indonesia and their economic relations with China may be disrupted, especially when these countries impose trade restrictions on the other's imports or seek to suspend visits by Chinese citizens to the Philippines or Indonesia, or vice versa. Should any of these impact from the disputes occur, and our operations, financial condition, results of operations and prospects could be adversely affected as a result.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there was no public market for our H Shares. We cannot assure you that a public market for our H Shares with adequate liquidity will develop and be sustained following the completion of the Global Offering. In addition, the Offer Price of our H Shares may not be indicative of the price of our H Shares following the completion of the Global Offering. If an active public market for our H Shares does not develop following the completion of the Global Offering, the market price and liquidity of our H Shares could be materially and adversely affected.

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

The price and trading volume of our H Shares may be highly volatile. Several factors, some of which are beyond our control, could cause large and sudden changes to the price and trading volume at which our H Shares will trade, such as:

- variations in our revenue, earnings and cash flow;
- announcement of new investments, strategic alliances or acquisitions;
- any unexpected business interruptions resulting from natural disasters or power shortages;
- any major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approval for our operations;
- our inability to compete with our competitors effectively;
- political, economic, financial and social developments;
- fluctuations in market prices for our products or raw materials; or
- the removal of the restrictions on H share transactions.

The Stock Exchange and other securities markets have, from time to time, experienced significant trading price volatility that are not related to the operating performance of any particular company. This volatility may also materially and adversely affect the market prices of our H Shares.

Since there will be a gap of several days between the pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the trading price of our H Shares could fall during this period before the trading of our H Shares begins.

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several business days after the pricing date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period.

Accordingly, the price of our H Shares could fall before trading begins due to adverse market conditions or other adverse developments between the time of sale and the date on which the trading begins.

Future public offering in China or conversion of our Domestic Shares and Unlisted Foreign Shares into H Shares, could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise additional equity capital in the future, or may result in dilution of your shareholdings.

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares, the requisite internal approval processes (but without the necessity of Shareholders' approval by class) have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, have been obtained. In addition, such conversion, trading and listing must comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. We can apply for the listing of all or any portion of our Domestic Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of shares for entry on the H Share register. This could increase the supply of H Shares in the market, and future sales, or perceived sales, of the converted Shares may adversely affect the trading price of H Shares. In addition, our Unlisted Foreign Shares may be converted into H Shares subject to regulatory approvals and compliance with relevant regulatory requirements. Any conversion of our Unlisted Foreign Shares will increase the number of H Shares available on the market and may affect the trading price of our H Shares.

A future significant increase or perceived significant increase in the supply of our H Shares in public markets could cause the price of our H Shares to decrease significantly, and/or dilute shareholdings of holders of our H Shares.

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

As the Offer Price of our H Shares is higher than our consolidated net tangible assets book value per H Share, purchasers of our H Shares in the Global Offering may experience immediate dilution upon the Shareholding percentage of our H Shares.

The Offer Price of our H Shares is higher than the net tangible asset book value per share of the H Shares immediately prior to the Global Offering. As a result, purchasers of the H Shares in the Global Offering will experience immediate dilution in shares adjusted net tangible assets. Purchaser of H Shares may experience further dilution if the Overall Coordinators (on behalf of the International Underwriters) exercise the Over-allotment Option or if we issue additional H Shares in the future.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may use the net proceeds from the Global Offering in ways that you may not agree with or that do not yield favorable returns for our Shareholders. We plan to use the net proceeds from the Global Offering to fund our construction on the Obi Island, expand our businesses, and conduct potential minority investments. See "Future Plans and Use of Proceeds" in this prospectus. However, our management will have discretion as to our actual use of the net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend for the specific uses we will make of the net proceeds from this Global Offering.

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

We declared dividends of RMB300.0 million, RMB190.0 million, RMB845.8 million in 2019, 2020 and 2021, respectively, all of which have been fully paid as of June 30, 2022. However, dividends paid in prior periods may not be indicative of future dividend payments. We cannot assure you when, if and in what form or size we will pay dividends in the future.

Our Board of Directors determines the frequency and amount of dividend distributions mainly based on our results of operations, cash flow and financial position, capital adequacy ratios, business prospects, regulatory restrict ions on the payment of dividends and other factors that our Board of Directors deems relevant. See "Financial Information — Dividends." We may not adopt the same dividend policy that we have adopted in the past.

Waivers from compliance with certain requirements of the Listing Rules by the Stock Exchange have been granted. These waivers could be revoked, exposing us and our Shareholders to additional legal and compliance obligations.

We have applied for, and the Stock Exchange has granted to us, a number of waivers and consents under the Listing Rules. See "Waivers from Strict Compliance with the Listing Rules" for further details. We cannot assure you that the Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs, and face uncertainties arising from challenges of multi-jurisdictional compliance, all of which could materially and adversely affect us and our Shareholders.

Certain facts and statistics derived from government sources contained in this document may not be reliable.

We have derived certain facts, forecasts and statistics in this document relating to the PRC, the Philippines, Indonesia and their respective economies, as well as the nickel industry from various official government publications and other publicly available publications. However, our Directors cannot guarantee the quality or reliability of such source and materials. We believe that the sources of the said information are appropriate sources for such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. While we have taken reasonable care in the extraction and reproduction of the information, these facts, forecasts and statistics, which may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside of the PRC, have not been independently verified by us, the Joint Sponsors, the Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties. No representation is given as to its accuracy. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

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

We may be subject to press and media coverage prior to the publication of this document, and subsequent to the date of this document but prior to the completion of the Global Offering. The press and media may include certain financial information, industry comparisons, profit forecasts and other information about us that does not appear in this document.

You should rely solely upon the information contained in this document, the Global Offering and any formal announcements made by us in Hong Kong in making your investment decision regarding the Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding ourselves or the Global Offering.

We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, reports or publications. Accordingly, prospective investors should not rely on any such information, reports or publications in making their investment decisions regarding the Global Offering.

In making their decisions as to whether to invest in our H Shares, prospective investors should only rely on the financial, operational and other information included in this document, the Global Offering and any formal announcements made by us in Hong Kong. By applying to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this document, the Global Offering and any formal announcements made by us in Hong Kong.

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

Immediately following the Global Offering, our Controlling Shareholders will hold in aggregate approximately 61.64% equity interest in our Company, assuming the Over-allotment Option is not exercised. Our Controlling Shareholders will, through their voting power at the Shareholders' meetings and their delegates on the Board, have significant influence over our business and affairs, including decisions in respect of mergers or other business combinations, acquisition or disposition of assets, issuance of additional Shares or other equity securities, timing and amount of dividend payments, and our management. Our Controlling Shareholders may not act in the best interests of our minority Shareholders. In addition, without the consent of our Controlling Shareholders, we could be prevented from entering into transactions that could be beneficial to us. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for the Shares as part of a sale of our Company and may significantly reduce the price of our Shares.