Potential investors should consider carefully all the information set out in this document and, in particular, should consider and evaluate the following risks and uncertainties associated with an investment in our Company before making any investment decision in the Shares being offered in this* [REDACTED]. *If any of the circumstances or events described below actually arises or occurs, our business, and financial condition, operating results and prospects may suffer. In any such case, the market price of our Shares may decline, and you may lose all or part of your investment. This document also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this document.

RISKS RELATING TO OUR BUSINESS

Any shortage in supply of raw materials or material fluctuation in their purchase prices may adversely affect our profit margins and results of operation.

We source raw materials, in particular, toluene from a limited number of suppliers. For the years ended December 31, 2021, 2022 and 2023, our five largest raw material suppliers, who were Independent Third Parties, together accounted for approximately 76.6%, 78.0% and 79.7% of our total purchases respectively, and our largest raw material supplier accounted for approximately 41.0%, 32.9% and 27.9% of our total purchases respectively. For the years ended December 31, 2021, 2022 and 2023, the cost of consumed raw materials accounted for approximately 54.7%, 64.5% and 59.0% of our cost of sales respectively. During the Track Record Period, we were able to maintain stable business relationship with the largest raw material suppliers and major market participants in our industry to secure the raw material supply. It is our intention to continue purchasing from these suppliers for the coming years. However, we cannot guarantee that we will be able to renew the purchase agreements with these suppliers, or able to find alternative suppliers in time to replace these suppliers if we are not able to renew such agreements. Major toluene manufacturers may suspend production to carry out regular maintenance. There is no assurance that we will always be able to secure an adequate supply of raw materials at commercially viable prices to meet our future production requirements. Moreover, the price of our raw materials, especially that of toluene, is affected by its upper stream product crude oil, and any changes in the international crude oil prices, may increase our costs of sales and reduce our gross profit and gross margin. We cannot guarantee that we will not suffer adverse effects from any price increases of raw materials in the future. If we encounter a shortage of raw materials or if we are unable to pass on the price increases of raw materials to our customers in a timely manner, our business and results of operations could be adversely affected.

We generate a substantial portion of our revenue through the sales of our self-produced products, any change in demand may adversely affect our revenue and profitability.

We currently generate a substantial part of our revenue from the sales of our self-produced products, which include toluene oxidation products, toluene chlorination products, benzoic acid ammonification products and other fine chemical products, which in aggregate accounted for approximately 79.4%, 86.8% and 83.0% of the total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. The demand for and the price of our self-produced products are subject to fluctuations. It is uncertain that we can successfully broaden our revenue sources or, if we can, generate additional revenue at a level comparable to that from the sales of our self-produced products. In the event that there is any material adverse change in the market demand for and/or price of our self-produced products, our revenue and profitability may be materially and adversely affected.

We recorded minimal gross profit margin in 2021 through our products trading, and we cannot assure you that we will not incur gross loss or minimal gross profit margin in products trading in the future.

We engage in products trading to supplement our primary production operations to ensure the procurement of raw materials for production and as a strategy to effectively manage our inventory. We may occasionally incur marginal losses if there is a downward trend in market prices. Revenue contribution from products trading accounted for 20.6%, 13.2% and 17.0% of our total revenue for the years ended December 31, 2021, 2022 and 2023, respectively. We recorded minimal gross profit margin of 0.6% in 2021 for our products trading operations. Toluene products trading constitutes a substantial portion of our products trading business, and we incurred gross losses of RMB2.7 million for our toluene products trading in 2021. We engage in products trading despite fluctuating profits as we anticipate greater business advantage by maintaining products trading operations and stable access to raw material supply in the long run, and aim to be at the forefront of this developing trend. As the market prices of our products are expected to be fluctuating, we cannot assure you that we will not incur gross loss or minimal gross profit margin in products trading in the future.

We had net current liabilities as at December 31, 2022 and 2023, and we cannot assure you that we will not continue to record net current liabilities.

As at December 31, 2022 and 2023, we recorded net current liabilities of RMB353.8 million and RMB590.1 million, respectively, which is primarily resulted from the dividend of RMB1,102.8 million and RMB270 million declared by our Company in 2022 and 2023, respectively. Although we recorded net current assets of RMB525.5 million as at December 31, 2021, we may incur net current liabilities in the future. Having net current liabilities could constrain our operational flexibility and could adversely affect our ability to expand our business. If we do not generate sufficient cash inflow from our operations to meet our present and future financial needs, we may need to continue to use and rely on external financial resources. If adequate external financial resources are not available on commercially acceptable terms or at all, we may encounter liquidity issue. Our business and financial condition and operating results could be adversely affected.

We rely on our distributors for the sale of our products to their respective end customers. Termination of or failure to renew our distribution relationship with our distributors, may significantly decrease the sale of our products.

We rely on our distributors to distribute and market our products. During the Track Record Period, revenue generated from the sales to the distributors amounted to approximately RMB989.1 million, RMB1,096.8 million and RMB994.6 million, respectively, representing 35.5%, 35.0% and 37.2% of our revenue, respectively, for the years ended December 31, 2021, 2022 and 2023. The performance of the distributors, their sales network and their ability to expand their businesses may affect the future growth of our business, sales volume and profitability. If most of our distribution agreements are suspended, terminated or otherwise expired without renewal, our profitability could be materially and adversely affected. We cannot assure you that we will be able to maintain our agreements with the distributors on favorable terms or at all. The distributors may not be able to maintain their competitiveness, or sell and market our products successfully, or we may not be able to monitor the distributors directly to ensure efficient sales of our products to their customers. Furthermore, if the sales volume of our products cannot be maintained at a satisfactory level, the distributors may not place orders on our new products with us or may reduce the quantity of our existing products or may ask for discount on the purchase price. In addition, we may not have sufficient control over the distributors, and we cannot assure you that the distributors will not breach their distribution agreements or will comply with their obligations thereunder, including those with respect to our retail policies. The loss of the distributors, or reduced orders from them or if the distribution agreements cannot be renewed or if the distributors breach any of the terms thereunder, could materially and adversely affect our business and financial condition and operating results. We are focused on identifying, recruiting and retaining quality distributors as part of our growth strategies. If we are unable to maintain or grow our sales and distribution network, we could experience a decline in sales and market share.

We may be subject to liability in connection with accidents that occur during the production process at our production facilities due to, amongst others, failure to comply with safety measures and procedures.

In the course of operations and production, we require our employees to comply with and implement all the safety measures and procedures as stipulated in our internal policies. Nevertheless, there is no assurance that our safety measures or other related rules and regulations by our employees are strictly followed. As our production process at our production facilities inevitably involves the operation of tools, equipment and machinery, accidents resulting in employee injuries or even deaths may occur. There is no assurance that these accidents, whether due to malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. Any violation may lead to higher probability of occurrences, and/or increased seriousness, of personal injuries, property damages and/or fatal accidents at our production facilities, which may materially and adversely affect business operations as well as financial position to the extent not covered by insurance policies.

During the Track Record Period and up to the Latest Practicable Date, no material personal injuries, material property damages and/or fatal accidents occurred at our production facilities. There is no assurance that there will not be any violations of rules, laws or regulations or breach of safety measures and procedures imposed by us on the part of our employees or other contractors in the future. In such event, we may be liable for personal injury or death and monetary losses suffered by our employees, fines or penalties or other legal liability arisen from violation of applicable PRC laws and regulations. We may also be subject to business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accident. Further, any enhanced safety measure imposed by the PRC government from time to time in the future could have a material adverse effect on the manner in which we conduct our operations, thereby adversely impacting our operations.

Labor shortages or increases in labor costs could harm our business, reduce our profitability and slow our growth.

Experienced professional staff and other labor are important for the operation of our businesses, and therefore, our success depends in part on our ability to attract, retain and motivate a sufficient number of our research and development personnel and staff for our production work. Qualified individuals in the relevant industries are in short supply and competition for workers is intense. In addition, competition for qualified individuals or workers could also require us to pay higher wages, which could result in higher labor costs.

Labor cost in the PRC has been on a rising trend over the years, and it may rise further in the future. We may not be able to fully transfer the increased cost of labor to our customers or offset the increase in labor cost against corresponding increases in the prices of our products. In the event that we are unable to cope with the increasing labor cost, our business, financial performance and results of operations may be adversely affected.

Our agreements with our customers and/or distributors do not contain specific labor cost adjustment mechanism, and we may fail to anticipate or may be unable to transfer the full impact of the increase in labor cost to our customers on a timely basis. In such cases, our business and results of operations may be adversely affected.

We rely on certain key personnel and may not be able to retain their services.

Our success to date has been, and will continue to be dependent on the continued services of our management and key personnel. In particular, we rely on the expertise and experience of our chairman of the Board and executive Director, Mr. Zou Xiaohong, and our chief executive officer, Mr. Zhou Xu, who have over 40 years and 35 years of experience, respectively, in the chemicals industry and toluene derivative products industry. For details, please refer to "Directors and Senior Management — Directors — Executive Directors" and "Directors and Senior Management — Senior Management" in this document, respectively. We expect that that our management team will continue to play a pivotal role in the future growth and success of our business. However, there is no guarantee that we will be able to attract and retain our current personnel or that they will not leave our employment in the future. If one or more of the members of our senior management or other key personnel are unable or unwilling to continue in their present positions, we may not be able to find suitable replacements in a timely manner, or at all. In addition, individuals with sufficient training may not be available to hire, and we will need to expend significant time and expense training the employees we hire. Furthermore, our ability to train and integrate new employees into our operations may not meet the growing demands of our business, which may materially and adversely affect our ability to grow our business and our results of operations.

If we are not able to implement our production capacity expansion plans or effectively manage our expansion, our business and financial condition and operating results could be adversely affected.

As part of our development strategies, we intend to further expand our existing production capacities by development of the Hubei Xinxuanhong Production Plant. For details, please refer to "Business — Business Expansion Plans" in this document. Our expansion plans may involve the following risks: (i) our actual production volume may vary depending on the demand and purchase orders for our products which in turn may be affected by market trends, customers' preferences or other factors which are beyond our control; (ii) the demand for our products and revenue to be generated may not increase in line with our increase in production capacity; and (iii) we expect to incur increased fixed costs, such as amortization of right-of-use assets and depreciation costs, in connection with capital investments relating to the expansion of our manufacturing facilities, and will be charged to our Group's income statement each year. Other variable costs incurred in relation to the expansion will be accounted for based on the actual production volume, level of distribution and business activities engaged in by our Group, and relocation of staff from other production plants; we cannot guarantee our expansion plans will be successfully implemented without delay or at all; and we may not be able to obtain the necessary licenses from the relevant regulatory authorities for our expansion plans. We cannot assure you that our expansion plans will be implemented without failure or delay, nor can we provide any assurance to you that the demand for our products will increase in line with our increasing production capacity in the future. Any delays in the construction schedule, deviation from our planned specifications, failure to control the costs within budget as a result of the above factors may affect the time that our production capacities could be enhanced and our results of operations and financial position may also be adversely affected. If we cannot recoup the increased costs for the expansion in our production capacity, our business and financial condition and operating results could be adversely affected.

In addition, we cannot assure you that we will always be able to obtain the financing required to fund such capital expenditures for the implementation of our production capacity expansion plans within the prescribed timeframe, or at all. If our business growth is slower than we have expected, it may lead to over-expansion of our production capacity and may result in lower production utilization rate, which could have an adverse impact on our gross profit margin.

We face challenges in achieving the goals of our business strategies, and we may not be successful in implementing our strategies and business initiatives.

We have experienced considerable growth in our business in recent years. We seek to pursue strategies that we believe would further strengthen our market position, such as increasing our in-house production capacities, investing in the Hebei Kangshi Production Plant and the Thailand Production Plant and further expanding our marketing network in North America, Southeast Asia and India. We also plan to increase our domestic and international market shares by forming strategic partnerships with established market participants, and further enhance our research and development ability.

The implementation of these business strategies may be subject to capital investment and human resources constraints. Our ability to implement such strategies will depend on a variety of factors, some of which are beyond our control, such as the general market conditions, the economic and political environment of the PRC and the world. While we believe our business strategies will help us to achieve our strategic goals, we might not be able to successfully carry out such strategies or our strategies might not yield the desired results.

Failure to fulfil our obligations related to our contract liabilities could materially and adversely affect our results of operation, liquidity and financial position.

Our contract liabilities represent short-term advances we received for products we have not delivered to the purchasers. As at December 31, 2021, 2022 and 2023, we had contract liabilities of approximately RMB64.3 million, RMB43.0 million and RMB50.6 million, respectively. There is no assurance that we will be able to fulfil our obligations for these contract liabilities as the completions of existing and future orders from our customers are subject to various factors, including availability of raw materials and our ability to procure them from the suppliers, and logistics services, and normal operations of our business. If we are not able to fulfill our contract liability obligations, the amount of contract liabilities will not be recognized as revenue, and we may have to return the advanced payments made by our customers or provide alternative compensation for the deferred revenue due to the customers. As a result, our results of operations, liquidity and financial position may be materially and adversely affected.

Any failure by our customers to make payments for trade and bills receivables to us, or any disputes over, or significant delays in receiving, such payments could materially and adversely affect our cash flows and profitability.

As at December 31, 2021, 2022 and 2023, our gross amount of trade and bills receivables were approximately RMB234.9 million, RMB327.8 million and RMB296.9 million, respectively. For further information on our trade and bills receivables, please refer to "Financial Information — Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position — Net Current Assets/Liabilities — Trade and Bills Receivables" in this document. Our trade and bills receivables turnover days were 24 days, 33 days and 42 days for the years ended December 31, 2021, 2022 and 2023, respectively. The trade and bills receivables turnover days are based on the average of the beginning and the ending balance of trade receivables of the respective period divided by the revenue for that corresponding period multiplied by 365 days.

Our Group's profitability and cash flows are dependent to a large extent on the creditworthiness of our customers and their ability to settle the outstanding amount owed to our Group in accordance with the credit periods we have granted to them. Any failure by our customers to make payments to us, or any dispute over or significant delays in receiving such payments from our customers, could require us to write off or make provision against our trade receivables, either of which could adversely affect our cash flows and profitability.

We may be exposed to impairment loss risks associated with our prepayments, deposits and other receivables.

During the Track Record Period, our prepayments, deposits and other receivables primarily consisted of deposits and other receivables, prepayments, deductible input VAT, dividend receivables and loans to directors. Our prepayments, deposits and other receivables amounted to RMB1,094.9 million, RMB69.3 million and RMB145.4 million as of December 31, 2021, 2022 and 2023, respectively. Among which, RMB1,008.2 million, RMB13.3 million and RMB59.4 million were receivables due from related parties. As at the same dates, our prepayment, which primarily related to prepayment to suppliers for our raw material, were RMB62.1 million, RMB27.7 million and RMB29.3 million, respectively.

In the event that our related parties fail to make payments for the loans extended to them, or our suppliers fail to provide the raw materials that they agreed to provide to us after we have made prepayments to them or fail to return the respective prepayments to us in full or at all, we may have to make provision for impairment on our payments to them. As such, if we need to make provision for impairment losses for our prepayments, deposits and other receivables, our cash flow position may be materially and adversely affected, and thereby our business, financial condition and results of operations may also be materially and adversely affected.

Our results of operations may be affected by the share of results of our joint venture and associates and we may be subject to related liquidity risk if no dividend is declared to us.

During the Track Record Period, we derived certain portion of our profits from our investments in our associates, which amounted to RMB8.5 million, RMB11.8 million and RMB4.5 million for the year ended December 31, 2021, 2022 and 2023, respectively. For the same years, we incurred losses of RMB6.0 million, RMB8.0 million and RMB11.8 million from our investments in our joint venture. The carrying amount of our investment in joint venture and associates were RMB56.7 million, RMB56.8 million and RMB35.9 million as at December 31, 2021, 2022 and 2023, respectively. Our results of operations could be affected by the fluctuation in the share of results of our joint ventures and associates. In addition, our investment in joint ventures and associate are subject to liquidity risk. Our investments in joint ventures and associate are not as liquid as other investment products as there is no return in our investment until dividends are received even if our joint ventures and associate reported profits under the equity accounting.

Furthermore, our ability to promptly sell one or more of our interests in the joint ventures and associate in response to the changing economic, financial and investment conditions is limited. We cannot predict whether we will be able to sell any of our interests in the joint ventures or associate for the price or on the terms set by us. We also cannot predict the length of time needed to find a purchaser and to complete the relevant transaction. Therefore, the illiquid nature of our investment in joint ventures and associate may significantly limit our ability to respond to adverse changes in the performance of our joint ventures and associate. In addition, if there is no or negative share of profit or no dividends from our joint ventures or associate, our financial condition or result of operations could be materially affected. Moreover, as we expect to continue to invest in our existing and future joint ventures and associates for the expansion of our business, our liquidity may be further restricted if we are not able to receive dividends from our existing or future joint ventures and associates, which could materially and adversely affect our ability to conduct or expand our business.

Our success relies on the image of our "XINKANG (新康牌)" brand. Any damage to or deterioration in the image of such brand could materially and adversely affect our business and results of operations.

We believe brand image is a critical factor for our customers and distributors, their downstream resellers and end users in deciding whether to purchase our products. We market all of our products under our "XINKANG (新康牌)" brand. As such, if our brand becomes less attractive to our customers or less popular due to our failure to continue to maintain and promote the image of such brand, ineffective marketing strategies or any negative publicity or dispute relating to such brand, including product defects and counterfeit products, market perception and consumer acceptance of such brand may be eroded, in which case our business, financial condition and results of operations may be materially and adversely affected.

We and entities with which we collaborate to export our products may not be able to meet regulatory requirements imposed by the governments of the PRC or our export destinations.

We export certain amount of our products from China to our foreign customers. Certain countries to which we export our products may impose technical, hygienic, environmental or other requirements on the import, distribution and sales of our products, which may be different from or more stringent than the standards imposed by the PRC government authorities. In addition to requirements imposed by the PRC government authorities, other countries may also require us and entities with which we collaborate to export our products to obtain various approvals, certificates, registrations or other documentation to conduct our export sales.

We rely on our PRC freight forwarder and our foreign customers to complete all such relevant procedures, and they are responsible for complying with various aspects of the relevant PRC and foreign laws and regulations. As such, we cannot assure you that all of our PRC freight forwarder, our foreign customers or any other entities which we rely on are in compliance with all various aspects of PRC or foreign laws and regulations relevant to our export sales, or that they can meet the relevant standards or obtain the approvals, certificates, registrations or other documentation necessary to our export sales. If we or other entities with which we collaborate with to export our products fail to satisfy the relevant standards adopted by the PRC or the destination countries or obtain the requisite approvals, certificates, registrations or other documentation now or in the future, our ability to export to these markets could be materially and adversely affected. We may also face regulatory actions or claims for significant damages, and there may be a material adverse effect on our business, results of operations and financial condition.

A material disruption to the operation of our production facilities could materially and adversely affect our business and financial condition and operating results.

We cannot assure you that there will be no disruptions to the operations of our production facilities in the future. If operations at any of our production facilities are materially disrupted as a result of fires, equipment failure, natural disasters, work stoppages, power outages, explosions, adverse weather conditions, political turmoil, trade disputes, transport logistics, labor disputes, workforce restructuring or other factors, our business and financial condition and operating results could be adversely affected. The occurrence of any of these events could also require us to make significant unanticipated capital expenditures.

Interruptions in production could increase our costs and delay our delivery of products, which may further subject us to penalties or other liabilities under the relevant sales arrangements with our customers. Production suspensions caused by such disruptions could cause a reduction in sales or delay in sales recognition. Lost sales or increased costs arising from such disruption of operations may not be recoverable under our existing insurance policies and prolonged business disruption could result in a loss of customers. If any one or more of the above risks were to materialize, our business and financial condition and operating results could be adversely affected.

We may be subject to liability in connection with the use and storage of hazardous materials.

We use and store flammable and/or explosive raw materials, other hazardous materials or chemical compounds, which may cause industrial accidents if we do not handle these materials properly. We cannot assure you that any accident causing explosion, disruption of operation, injuries or death resulting from our negligence or mishandling of these hazardous materials will not happen at our production facilities. In such event, we may be liable for the loss of life and property, personal injuries, medical expenses suffered by the victims in the accident and we may have to pay fines and penalties for violation of applicable PRC laws and regulations. Furthermore, our manufacturing facilities may be required to halt operation pending investigations from the competent authorities, which would adversely affect our business operation, reputation and financial performance.

We use, generate and dispose environmental wastes which may subject us to liabilities.

Our operations are subject to PRC environmental protection laws and regulations which govern the emission, discharge, release and disposal of environmental wastes and other pollutants. Under the applicable laws and regulations, enterprises that produce environmental wastes are required to adopt effective measures to control, properly manage and dispose of environmental wastes, including waste gas, wastewater, solid wastes and noise. Manufacturers discharging environmental wastes and other pollutants are required to pay fines for discharges above permitted levels under the applicable PRC environmental protection laws and regulations. Failure to comply with the applicable PRC environmental laws or regulations may result in local environmental protection authorities imposing fines or suspending operations, and may lead to the loss of environmental and production licenses. The PRC government and PRC regional regulatory authorities have the discretion to suspend or close any facility failing to comply with such environmental protection laws and regulations. In the event that the PRC government imposes more stringent environmental protection laws and regulations, our production costs may substantially increase, or we may also be forced to suspend production or may need to incur material capital expenditures or other costs in order to remain in compliance and as such we may be unable to pass on these additional costs to our customers.

We may not be able to maintain effective quality control and may be subject to product liability claims which could have a material adverse impact on our reputation, business and financial condition, and operating results.

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

We may not be able to effectively manage our inventory.

The balance of our inventory amounted to RMB305.6 million, RMB320.5 million and RMB285.3 million, respectively, and accounted for 17.4%, 37.1% and 34.3% of our current assets as of December 31, 2021, 2022 and 2023. For the years ended December 31, 2021, 2022 and 2023, our inventory turnover days were 36 days, 47 days and 47 days, respectively. This level of inventory, particularly of finished goods, may result in obsolescence if we over-estimate the demand level or if there is a sudden change in customer preference. The demand for our products is dependent on our customers' needs, the development of the sales channels (including the distributorship network) and the economic condition of the market which is beyond our control.

If we are not able to manage our inventory efficiently, we could be subject to the risk of inventory obsolescence, decline in the realizable value, and significant write-down of the value of our inventory of finished products. Any of these events could adversely affect our business and financial condition and operating results.

Litigation or legal proceedings could expose us to liability, divert our management's attention and negatively impact our reputation.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any material litigation, claim or any other proceedings against us. However, we may be involved in litigation or legal proceedings during the ordinary course of business operations related to product or other types of liability, labor disputes or contract disputes that could have a material and adverse effect on our financial conditions. These actions could also expose us to adverse publicity, which might adversely affect our brands, reputation and customer preference for our products. If we become involved in any litigation or other legal proceedings in the future, the outcome of these types of proceedings could be uncertain and could result in settlements or outcomes that adversely affect our financial conditions. In addition, any litigation or legal proceedings could incur substantial legal expenses as well as significant time and attention of our management, diverting their attention from our business and operations.

We may not be able to protect our intellectual property rights, and the infringement of our intellectual property rights by third parties could affect our ability to compete.

Throughout our business development history, we have developed and maintained a number of patents and trademarks for our products. As at the Latest Practicable Date, we held three registered trademarks in the PRC. We also have 78 registered patents and 13 pending patent applications in the PRC. Seeking patent protection can be lengthy and expensive, and we cannot assure you that our patent applications will result in patents being issued or that our existing patents or patents issued in future will be sufficient to provide us with the meaningful or required protection or commercial advantage. Our patents and patent applications may be challenged, invalidated or circumvented. Our current or potential competitors, many of whom have substantial resources and have made substantial investments in competing technologies, may have, and may develop, products that compete directly with our products despite our possession of intellectual property rights.

In addition, policing unauthorized use of proprietary technology is difficult and expensive, and we may need to commence litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. In the event of any such litigation or an adverse determination in any such litigation, could result in substantial costs and diversion of resources and management attention, which could harm our business, reputation and competitive position.

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

Insurance policies taken out by us, including those against fire, natural disasters, operational interruptions and third-party liability, are subject to exclusions and limitations of liability both in amount and with respect to the insured events. We and/or our officers (as the case may be) may be exposed to claims in respect of matters that are not covered by any insurance policies we maintain. In addition, although we maintain insurance coverage we believe to be adequate based on the industry we operate in, covering our properties, manufacturing facilities, plant and machinery, equipment and inventories, which is also in line with market practice according to Frost & Sullivan, there may be circumstances (such as earthquakes, war, floods, transportation disruption, power shortages and disruption of or damage to our production facilities, equipment or products) in which we would not be covered adequately, or at all. Any material loss not covered by our insurance or reimbursed by our insurance providers could materially and adversely affect our business, financial conditions and results of operations.

We may be affected by global and regional trade policies.

As of December 31, 2023, we have exported our products to more than 70 countries and/or regions across the world with a particular focus on the North American, Southeast Asian and European markets. For the years ended December 31, 2021, 2022 and 2023, we generated approximately 22.2%, 21.8% and 23.1% of our revenue from our sales to international market, respectively. Government policies favoring domestic companies in certain foreign markets or trade barriers including export or import requirements, higher hygiene standards in relation to food products, tariffs, taxes and other restrictions and charges may adversely affect our ability to export our products to customers in other countries at favorable or reasonable terms or at all. Moreover, any change in the inflation, interest rates, foreign exchange rate, government policies, trade policies, exchange control regulations, food industry laws and regulations, social stability, political, legal, economic and diplomatic environment of the countries in which we or our customers operate, or the perception that these changes could occur, could adversely affect the financial and economic conditions in the countries in which we or our customers operate, as well as our business operation, financial condition and results of our operations.

The government grants received by our Group during the Track Record Period was non-recurring in nature.

During the Track Record Period, benefited from government grants and subsidies, we recorded government grants of RMB7.1 million, RMB17.0 million and RMB11.8 million for the year ended December 31, 2021, 2022 and 2023, respectively. These government grants include (i) government grants related to income, representing subsidies received from the local governments for the purpose of compensation of expenses incurred by our Group; and (ii) government grants related to assets, representing subsidies received for the purchase of assets. Our government grants are non-recurring in nature with no unfulfilled conditions or contingencies attached to them, and the amount of the grants were subject to the discretion of the relevant government authority. Since our receipt of the government grants and subsidies is subject to periodic time lags and changing government practice, our net income in a particular period may be higher or lower relative to other periods depending on the potential changes in these government grants and subsidies in addition to any business or operational factors that we may otherwise experience. There is no assurance that our Group will continue to receive similar government grants in the future, or at all. If there is any change, suspension or termination of government subsidies, our business, financial condition and results of operations could be materially and adversely affected.

We may not be able to obtain adequate financing to fund our capital requirements.

We have in the past funded our capital expenditures primarily by shareholder equity injections, cash generated from our operations and through credit facilities. We cannot assure you that cash generated from our operations will be sufficient to fund our future development and expansion plans. For us to grow and remain competitive, we may require new capital in the future. There can be no assurance that such additional financing will be available to us on reasonable terms or at all. Our ability to obtain additional capital in the future is subject to a variety of uncertainties beyond our control, including market conditions, credit availability and interest rates. If we are unable to raise sufficient capital in the future on commercially acceptable terms, we may have to abandon, delay, or postpone certain of our planned capital expenditures. Our inability to finance our planned capital expenditures could adversely affect our business, financial condition, results of operations. In addition, the terms and amount of capital raised through issuing equity securities may significantly dilute the interests of shareholders.

We are exposed to foreign exchange risks.

Our Group was subject to transactional currency exposures which arose from sales in currencies other than our functional currencies. During the Track Record Period, our sales in the PRC were settled in Renminbi while our international sales were mainly settled in U.S. dollars. For the years ended December 31, 2021, 2022 and 2023, approximately 21.8%, 22.8% and 23.0% of our sales were denominated in currencies other than the functional currencies of our operating subsidiaries making the sale, respectively.

Any future significant fluctuations in exchange rates will result in increases or decreases in our reported costs and earnings, and, accordingly, our business, financial condition, results of operations and prospects. If there is any material fluctuation in the exchange rates of one currency that we use to settle our payables against the other currency we received from our customers, and if we are unable to pass on the exchange risk to our customers, our results of operations and financial condition may be adversely affected. During the Track Record Period, we do not have a foreign currency hedging policy but we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Our share award scheme may cause shareholding dilution to our existing Shareholders and have a material and adverse effect on our financial performance.

On January 18, 2021, Linuo Investment and Cougar Holdings approved a share award scheme of Wuhan Youji, pursuant to which Linuo Investment (a substantial shareholder of Cougar Holdings) agreed to grant share awards representing an aggregate of 600 shares in Cougar Holdings to 104 eligible employees of our Group, including senior and middle management of Wuhan Youji at the time. We adopted share award scheme to provide incentives and rewards to eligible participants who contribute to the success of our operations. For the year ended December 31, 2021, 2022 and 2023, we recognized share-based compensation expenses of RMB0.4 million, RMB0.4 million and RMB0.4 million, respectively. To further incentivize our employees, we may grant additional incentive shares in the future. Issuance of additional shares with respect to such share award scheme may dilute the shareholding percentage of our existing Shareholders. Expenses incurred with respect to such share award scheme may also increase our operating expenses and therefore have a material and adverse effect on our financial performance.

Any potential claims or disputes by the Unresponsive Shareholders could materially and adversely affect our business and results of operations.

As detailed in "History, Reorganization and Corporate Structure — Reorganization — Step 2: Arrangements for Employee Trust Shareholders" in this document, our Company, through Wuhan Youji, has actively sought to reach out to the beneficial shareholders, including survivors and heirs, with a view to resolve the historical issues with the Employee Trust. As of May 31, 2022, approximately 8.92% and 0.78% of the issued share capital of Cougar Holdings, were held by the Unresponsive Shareholders and the Retaining Shareholders, respectively, which were all transferred to Custodian Capital Ltd. subsequently.

Since the Retaining Shareholders have signed custodial agreements and the Retaining Shareholders have agreed with such arrangements, our PRC Legal Advisors advise that such arrangements are not against their wills and will not infringe their rights and interests. In addition, considering (1) for the potential demands or claims of transferring or directly holding such shares in the Company held by the Unresponsive Shareholders, our Controlling Shareholders and Custodian Capital Ltd have provided written undertaking that they will accommodate and resolve any such demands or claims, and will not dispose such entrusted shares without authorization and will assume potential liabilities for the Unresponsive Shareholders (if any); and (2) such arrangements have been approved by the Local Financial Regulatory Bureau of Wuhan (武漢市地方金融工作局) and relevant procedures have been went through pursuant to the instructions of the Wuhan Federation of Trade Union (武漢市總工會), our PRC Legal Advisors are of the view that under current circumstances, reasonable measures have been taken as far as possible to protect the interests of Unresponsive Shareholders so as to reduce the risk of potential disagreement raised by them. However, the Unresponsive Shareholders, if they appear in the future upon presenting proof of their beneficial title in the shares held by the Employee Trust, may not agree to such arrangement. As such, any potential claims or disputes by the Unresponsive Shareholders could have a material and adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY

We may not compete effectively and may lose our leading market position.

We operate in a competitive market and face competition in each of our business segments. Some of our competitors may have greater production capacity and manpower and other resources, stronger financial strengths, more established customer base, more diversified product offerings, more established brands and market recognition. We expect competition in our industry to intensify in the future. Intense competition will subject us to pricing pressure which may squeeze profit margins with respect to some of our products and reduce our revenue. If we fail to compete effectively or maintain our competitiveness in the market, our business and financial condition and operating results could be adversely affected.

Our business operations are subject to various registration, license, permit and certificate requirements. The loss of, expiry, withdrawal, revocation, downgrading or failure to obtain or renew any of such registrations, licenses, permits and certificates could materially and adversely affect our operations and financial results.

Pursuant to relevant PRC laws and regulations, we are required to hold various licenses and permits in order to conduct our business. We are also required to comply with applicable regulations and standards in relation to our production and the quality of our products. Our PRC Legal Advisors advise us and our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable material laws and regulations in the PRC, have obtained all the necessary registrations, licenses, permits and certificates for our business operations in the PRC and as confirmed by our Directors, we have not experienced any difficulty in the renewal of such registrations, licenses, permits and certificates in relation to our production and operations. For a summary of such registrations, licenses, permits or certificates, please refer to "Regulatory Overview" in this document.

The registrations, licenses, permits and certificates that we currently hold may only be valid for a limited period of time and may be subject to periodic reviews and renewal by the relevant authorities. Any failure to comply with these laws and regulations, or the loss of or failure to renew our licenses and permits or any change in the government policies, could lead to temporary or permanent suspension of some of our business operations or the imposition of penalties on us, which could adversely affect our results of operations and financial condition.

RISKS RELATING TO DOING BUSINESS IN THE PRC

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

During the Track Record Period, we derived a substantial portion of our revenue from sales in the PRC. For the years ended December 31, 2021, 2022 and 2023, the revenue generated from our sales in the PRC accounted for approximately 77.8%, 78.2% and 76.9% of our total sales for the same periods, respectively. Our business is subject to general economic and social conditions in China. Certain factors beyond our control may adversely affect the economy, infrastructure and livelihood of people in the region where we conduct our business operations. Some regions in China may be susceptible to the threat of natural disasters such as earthquakes or epidemics such as Ebola and Monkeypox. Serious natural disasters and acts of war or terrorism may result in, among others, power shortages or failures, loss of life, injuries, destruction of assets and disruption of our business operations. Severe communicable disease outbreaks may cause a widespread health crisis that materially and adversely affects economic systems and financial markets. Any of these factors and others beyond our control could have an adverse effect on the overall business sentiment and environment, create uncertainties in the region where we conduct our business operations, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

The outbreak of pneumonia-like illness named COVID-19 has been spreading globally. COVID-19 is highly infectious and has resulted in deaths in the PRC and other countries. On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 as a public health emergency of international concern and subsequently characterized COVID-19 as a pandemic on March 11, 2020. The government authorities of the PRC and other countries may take various necessary measures from time to time to control the COVID-19 outbreak.

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

Changes in existing laws and regulations or additional or more stringent laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditure.

PRC environmental protection laws and regulations require manufacturers that may cause environmental wastes to adopt effective measures to control and dispose of industrial wastes. In addition, we are required to obtain clearances and authorizations from government authorities for the treatment and disposal of such discharge. As our manufacturing processes generate noise, waste water, waste gas and other industrial wastes, we are required to comply with national and local environmental regulations. If we fail to comply with environmental regulations, in particular, in relation to the use of or discharge of hazardous substances (if any), we may be required to pay potentially significant monetary damages and fines, suspend production or cease operations, which would have a material adverse effect on our business and operating results. There can also be no assurance that the PRC government will not change the existing laws or regulations, or impose additional or more stringent laws or regulations, or interpret or implement the existing laws and regulations more strictly in order to seek better environmental protection. Compliance with any of these additional or more stringent laws or regulations or more stringent implementations may cause us to incur additional capital expenditure, which we may be unable to pass on to our customers by increasing the prices for our products.

Our business operations may be affected by regulatory changes.

The establishment and many aspects of the business operations of our PRC subsidiaries are regulated by various local, provincial and national regulations. The PRC legal framework, qualification requirements and enforcement trends in the fine industrial chemical products industry may change, and we may not be able to respond to such changes in a timely manner. Such changes may also cause the compliance cost to increase, which may materially and adversely affect our business, financial condition and results of operations.

Changes to PRC laws, regulations and government policies in relation to environmental protection and occupational health and safety could adversely impact our business, financial condition and results of operations.

We are and will continue to be subject to PRC laws, rules and regulations concerning environmental protection as well as occupational health and safety requirements, including in relation to the operation of our facilities and the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances during our manufacturing processes and noise pollution. Any breach of the PRC environmental protection and health and safety regulations could subject us to a substantial fine, damage our reputation, cause delays in production or result in some or all of our production facilities being temporarily suspended or permanently shut down. There is no assurance that the national or local authorities will not enact additional laws or regulations or amend or enforce new regulations in a more rigorous manner. In case the PRC government amends such laws, rules and regulations to impose a more stringent standard, we may need to incur additional costs and expenses (including additional capital expenditure) in order to comply with the amended standard, which could result in increased operating costs and thus adversely affecting our financial condition and results of operations.

We may rely on dividends and other distributions on equity paid by our operating subsidiaries to fund cash and financing requirements. Limitations on the ability of our operating subsidiaries in the PRC to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company incorporated in the Cayman Islands and conduct substantially all of our operations through our PRC subsidiaries. We will rely on dividends paid by our PRC subsidiaries for our future cash needs that cannot be provided by equity issuance or borrowings outside of the PRC, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses in excess of such amounts will depend on dividends from our PRC subsidiaries. Under the PRC laws, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and subsidiaries in the PRC are also required to set aside part of their after-tax profits to fund certain reserve funds that are not distributable as cash dividends. As a result, our PRC subsidiaries will be restricted in their ability to transfer the net profits to us in the form of dividends. Other factors such as cash flow conditions, restrictions on distributions contained in the PRC subsidiaries' articles of associations, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect the ability of our subsidiaries in the PRC to make distributions to our Company. If our PRC subsidiaries cannot pay dividends due to government policy and regulations or contractual restrictions, or because they cannot generate the requisite cash flow, we may not be able to pay dividends, service our debt or pay our expenses, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be considered a "PRC resident enterprise" under the CIT Law, which could result in our global income being subject to a 25% PRC enterprise income tax.

Our Company is incorporated in the Cayman Islands. We conduct our business primarily through our operating subsidiaries in the PRC. Under the CIT Law, enterprises established under the laws of foreign countries or regions and whose "de facto management bodies" are located within the PRC are considered "PRC resident enterprises" and thus will generally be subject to an CIT at the rate of 25% on their global income. On December 6, 2007, the State Council adopted the CIT Regulations, which became effective on January 1, 2008 and was amended on April 23, 2019, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises." Currently, substantially all of our management is based in the PRC, and may continue to be based in the PRC in the future. On April 22, 2009, a circular issued by the State Administration of Taxation in respect of the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as "resident enterprises" clarified that dividends and other income paid by such "resident enterprises" will be considered to be Chinese source income, subject to withholding tax in the PRC, currently at the rate of 10%, when recognized by non-Chinese enterprise shareholders. The circular also subjects such "resident enterprises" to various reporting requirements with PRC tax authorities. Under the implementation regulations to the enterprise income tax, a "de facto management body" is defined as a body that has material and overall management and control over the production and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the circular sets forth the criteria for determining whether "de facto management bodies" are located in the PRC for overseas incorporated, domestically controlled enterprises. However, as the circular only applies to enterprises established outside of the PRC which are controlled by Chinese enterprises or groups of Chinese enterprises, it remains unclear how the tax authorities will interpret the location of "de facto management bodies" of overseas incorporated enterprises. As such, despite the fact that substantially all of our management members are currently located in China, it remains unclear whether the PRC tax authorities would require our overseas registered entities to be treated as PRC resident enterprises.

If we were considered a PRC resident enterprise, we would be subject to the CIT at the rate of 25% on our global income, and any dividends or gains on the sale of our Shares received by our non-resident enterprise shareholders may be subject to a withholding tax at a rate of up to 10%. In addition, although the CIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from CIT, it remains unclear as to the qualification requirements for this exemption and whether dividend payments made by our PRC operating subsidiaries to us would meet such qualification requirements if we were considered a PRC resident enterprise for the purpose. If our global income were to be taxed under the CIT Law, our financial position and operating results would be materially and adversely affected.

Failure by our Shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from distributing profits and could expose us and our PRC resident Shareholders to liabilities under PRC law.

Circular 37, which was promulgated by SAFE and became effective on July 4, 2014, requires a PRC individual resident (the "**PRC Resident**") to file a "Registration Form of Overseas Investments Contributed by Domestic Individual Residents" and register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the "**Overseas SPV**"), that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, any major change of the PRC Resident shareholder, name of the Overseas SPV, term of operation, or any increase or reduction of the overseas SPV's registered capital, share transfer or swap, and merger or division. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) released in February 2015 by SAFE, as amended in December 2019, or SAFE Circular 13, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under Circular 37 from June 2015.

The failure to comply with registration procedures set forth in SAFE Circular 37 may result in restriction being imposed on the foreign exchange activities of our PRC subsidiaries, including the payment of dividends and other distributions to us and the capital inflow from us and may also subject the relevant PRC Residents and our PRC subsidiaries to penalties under PRC foreign exchange administration regulations. Further, failure to comply with various SAFE registration requirements described above would result in liability for foreign exchange evasion under PRC laws. It remains unclear how this regulation, and any further regulation concerning offshore or cross-border transaction, will be interpreted, amended and implemented by the relevant government authorities, we cannot predict how these regulations will affect our business operation or future strategies.

Fluctuations in exchange rates may affect the value of your investment and limit our ability to utilize our cash.

The conversion and remittance of foreign currencies are subject to the foreign exchange regulations in the PRC. We receive part of our payments from our customers in Renminbi and may need to convert and remit Renminbi into foreign currencies for the payment of dividends, if any, to our Shareholders. Under the current foreign exchange regulations in the PRC, following the completion of the [**REDACTED**], foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require prior approval from the SAFE, although we are still required to present the relevant documentary evidence and conduct the transactions at designated foreign exchange banks in the PRC that have the licenses to carry out foreign exchange business. We will be able to pay dividends in foreign currencies without prior approval from SAFE or its local branches by complying with such procedural requirements. However, in case foreign currencies become scarce in the PRC, we may not be able to pay dividends in foreign currencies to our Shareholders. Foreign exchange transactions under our capital account will continue to be, to certain extent, subject to foreign exchange controls and require the approval of the SAFE or its local branches. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

Our sales in the PRC are settled in Renminbi while our international sales are mainly settled in U.S. dollars. Any significant fluctuations in the exchange rates between these currencies could adversely affect our business and financial condition and operating results. These exchange rates may also be affected by, among other things, the policies of the PRC Government and changes in the political and economic conditions both internationally and in the PRC. Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollar, has been based on rates set by the People's Bank of China, which are based on interbank foreign exchange market rates on the previous day and current exchange rates on the world financial markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The exchange rate between Renminbi and the U.S. dollar may indirectly affect the exchange rates between Renminbi and Euro. The value of Renminbi against Hong Kong dollar has been changing on a daily basis. The PRC government has since then made, and may make, further adjustments to the exchange rate system in the future.

If Renminbi appreciates or depreciates against other currencies significantly, and as we need to convert and remit the proceeds from the [**REDACTED**] and future financing into Renminbi for our operations, appreciation or depreciation of the Renminbi against the relevant foreign currencies would decrease or increase Renminbi amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of Renminbi against Hong Kong dollar could reduce the amount of any cash dividends on our Shares in Hong Kong dollars.

Certain of our lease agreements have not been registered with the relevant government authorities and may be subject to fines.

We have leased several properties in the PRC. As of the Latest Practicable Date, certain of our lease agreements had not been registered with the relevant government authorities. Under the relevant PRC laws and regulations, the lease agreements need to be registered and filed with the relevant government. According to our PRC Legal Advisors, while the lack of registration will not affect the validity and enforceability of the lease agreements, a fine ranging from RMB1,000 to RMB10,000 may be imposed on the parties for each non-registered lease. We may incur additional expenses if any fine were imposed upon us. The registration of some lease agreements requires additional steps to be taken by the respective landlords which are beyond our control. We cannot assure you that the landlords will be cooperative and the registration of these lease agreements and other lease agreements that we may enter into in the future can be completed.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the net proceeds from the [REDACTED] to make additional capital contributions or loans to our major PRC subsidiaries.

In utilizing the proceeds of the [**REDACTED**] in the manner described in the section headed "Future Plans and Use of Proceeds" in this document or any other debt or equity offering, as an offshore holding company of our PRC operating subsidiaries, we may make loans or additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to the PRC regulations and approvals. For example, loans made by our Company to our PRC subsidiaries to finance their activities cannot exceed the statutory limits and must be registered with SAFE or its local counterpart.

In addition, any capital contributions made to our PRC subsidiaries must be filed with the MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain such government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions made by us to our PRC subsidiaries. If we fail to receive such registrations or approvals, our ability to use the net proceeds of the [**REDACTED**] could be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

We face tax risks with respect to the indirect transfers of equity interests in the PRC resident enterprises in connection with the Reorganization.

On February 3, 2015, SAT promulgated the Bulletin on Several Issues concerning the Enterprise Income Tax on Indirect Asset Transfer by Non-Resident Enterprises (Bulletin [2015] No. 7, "**Bulletin 7**") (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》). Bulletin 7 is the latest regulatory instrument on indirect transfer and replace certain provisions of two previous sets of guidance issued in 2009 and 2011: the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-Resident Enterprises ([2009] Circular 698, "**Circular 698**") (《關於加強非居民企業股權轉讓企業所得稅管理的通知》) and the Bulletin on Several Issues Concerning the Administration of Income Tax on Non-resident Enterprises (Bulletin [2011] No. 24, "**Bulletin 24**") (《關於非居民企業所得稅管理若干問題的公告》). Tax matters occurred but have not been settled before 3 February 2015, the date of implementation of Bulletin 7, shall be governed by Bulletin 7.

Pursuant to Bulletin 7, an indirect transfer of equities and other assets of a Chinese resident enterprises ("**Chinese taxable assets**") conducted by non-resident enterprises through arrangements that do not have reasonable commercial purposes, which results in avoidance of EIT, shall be deemed as direct transfer of Chinese taxable assets and thus subject to tax in the PRC.

In connection with the Reorganization, our Group conducted transactions that may be deemed to be indirect transfers of equity interests in the PRC subsidiaries. If the relevant PRC tax authorities hold that these transactions do not have reasonable commercial purpose and were conducted for the purpose of avoiding PRC tax, our Group may incur PRC tax liability for such transaction. However, it remains unclear how the PRC tax authorities will implement and enforce Bulletin 7 and whether it will subject our Group to any PRC tax liabilities.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us and our Directors and senior management.

Substantially all of our assets are located in the PRC. In addition, almost all of our Directors and executive officers reside in the PRC and their personal assets may also be in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and executive officers. A judgment of a court from a foreign jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a corresponding treaty with the PRC or if the judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for the Shares and the liquidity and market price of our Shares may be volatile.

Prior to completion of the [**REDACTED**], there has been no public market for our Shares. There can be no guarantee that an active trading market for our Shares will develop or be sustained after completion of the [**REDACTED**]. The [**REDACTED**] is the result of negotiations between our Company, the [**REDACTED**] and the [**REDACTED**] (for itself and on behalf of the [**REDACTED**]), which may not be indicative of the price at which our Shares will be traded following completion of the [**REDACTED**]. The market price of our Shares may drop below the [**REDACTED**] at any time after completion of the [**REDACTED**].

Purchasers of our Shares in the [REDACTED] will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The initial [**REDACTED**] is higher than the net tangible asset value per Share of the outstanding Shares issued to our existing Shareholders immediately prior to the [**REDACTED**]. Therefore, purchasers of our Shares in the [**REDACTED**] will experience an immediate dilution in terms of the pro forma consolidated net tangible asset value. In addition, we may consider offering and issuing additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share.

The price and the trading volume of our Shares may be volatile which could result in substantial losses for investors purchasing our Shares under the [REDACTED].

The price and trading volume of our Shares may be volatile. The market price of our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- actual or anticipated variations of our operating results;

- loss of key raw material suppliers;
- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, depositions, strategic alliances or joint ventures;
- addition or departure of key senior management or other key personnel;
- fluctuations in stock market price and volume;
- regulatory or legal developments, including involvement in litigation; and
- general economic, political and stock market conditions in Hong Kong, the PRC and elsewhere in the world.

In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced increasing price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. Such market fluctuations may materially and adversely affect the market price of our Shares.

Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall when the trading of our Shares commences.

The [**REDACTED**] is expected to be determined on the [**REDACTED**]. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be after the [**REDACTED**]. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price or value of our Shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Future sale or major divestment of Shares by our Controlling Shareholders or our investors could materially and adversely affect the prevailing market price of our Shares.

The future sale of a significant number of our Shares in the public market after the [**REDACTED**], or the possibility of such sales, by our Controlling Shareholders or investors could materially and adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Although our Controlling Shareholders have agreed to a lock-up on their Shares, any major disposal of our Shares by any of such Controlling Shareholders upon expiry of the relevant lock-up periods (or the perception that these disposals may occur) may cause the prevailing market price of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

Our interests may conflict with those of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders' best interests.

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling shareholders could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue.

Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatizations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of our other shareholders. Consequently, our Controlling Shareholders' interests may not necessarily be in line with the best interests of our Company or the interests of our other Shareholders, which may have a material and adverse effect on our Company's business operations and the price at which our Shares are traded on the Stock Exchange.

Future offerings or sales could adversely affect the prevailing market price of our Shares.

Future offerings or sales of our Shares by us or our Controlling Shareholders, or other Shareholders in the public market, or the perception that such offerings or sales could occur, may cause the market price of our Shares to decline. Following the expiration of their respective lock-up periods, the market price of our Shares may decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares (including the issuance of new Shares pursuant to the exercise of share options granted by us) or the perception that such sales or issuances may occur. This could also have a material and adverse effect on our ability to raise capital in the future at a time and at a price deemed appropriate. In addition, if we issue additional Shares or share options or other securities in the future, you may experience further dilution.

Certain industry statistics contained in this document may not be accurate and should not be unduly relied upon.

Certain facts and statistics in this document related to the PRC, its economy and the industries in which we operate within the PRC are derived from official government publications generally believed to be reliable. We believe that the sources of these facts and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. These facts and statistics have not been independently verified by us, the Sole Sponsor, the [**REDACTED**], the [**REDACTED**], the [**REDACTED**], the [**REDACTED**], the [**REDACTED**], any of our or their respective directors, officers or representatives or any other person involved in the [**REDACTED**] and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated with the same degree of accuracy as may exist elsewhere. In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.

This document contains forward looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

Included in this document are various forward-looking statements that are based on various assumptions. The future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to "Forward-looking Statements" in this document.

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

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