RISK FACTORS

Potential investors should read and consider carefully all the information set out in this document, and, in particular, should evaluate the following risks and uncertainties before deciding to make any investment in our H Shares. You should pay particular attention to the fact that we conduct our operations in China, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties listed below could have a material adverse effect on our business, results of operations, financial condition or on the [REDACTED] of our H Shares and could cause you to lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our business relies on consumer demand for our products. Any shift in consumer demand, or any unexpected situation with a negative impact on consumer demand may materially and adversely affect our business and results of operations.

Our business relies on consumer demand for our products, which depends substantially on factors such as (1) consumer spending patterns, (2) consumer preferences and tastes, (3) consumer income, (4) consumer perceptions of and confidence in our product quality and food safety, and (5) consumer awareness of healthy lifestyle. Driven by increasing consumer demand for healthy lifestyle, increasing disposable income and consumption upgrade, the demand for tea leaf products has been growing continuously. Changes in any of the above at any time could result in decline in consumer demand for our products. In particular, a general slowdown in economic activities over a sustained period of time could lead to a decrease in consumer income, which may result in changes in consumer spending patterns, such as a significant increase in spending for necessities. As the competition in the beverage industry becomes more fierce than ever with frequent introduction of new types of products to the market, consumers may change their preferences and tastes as our products may be substituted by other kinds of beverages, including tea beverages and non-tea beverages. For example, ready-to-drink tea products, such as bottled tea with added flavors, have become increasingly popular on the market due to its variety of flavors created by various combinations of ingredients. In addition, while consumer awareness of healthy lifestyle is a significant factor driving the demand for our products, it can be affected by various factors, such as false media campaigns and marketing schemes. Consumer perceptions of and confidence in our product quality and food safety may affect consumer demand for our products. Any incidents involving food-related illnesses, tampering, adulteration, contamination or mislabeling, whether or not accurate, as well as adverse public or medical opinions about the health effects of consuming our products, could negatively affect consumer confidence in our product quality and food safety.

Our business development will depend partly on our ability to (1) anticipate, identify or adapt to such changes, (2) introduce new attractive products and marketing strategies in a timely manner, and (3) develop appropriate sales and distribution networks accordingly. Although we dedicate manpower and financial resources to consumer-centric market research and data analysis to upgrade our existing products and to develop, design and launch new products, we cannot assure you that our product portfolio will lead the market trends. Any changes in consumer preferences and tastes may impose downward pressure on sales and pricing of our products or lead to increases in selling and distribution expenses.

Any damage to our brand or reputation may materially and adversely affect our business and results of operations.

Our business relies on consumers' recognition of and their trust in our brand. Our brand and reputation may be damaged by distributors' improper conduct, counterfeit of our products, product defects, product liability claims, consumer complaints, negative rumors, negative media coverage or any other forms of negative publicity. In particular, we engage distributors to distribute our products and authorize such distributors to use our brand name and images in their course of distribution for our products. In 2022, the revenue generated from our distributors as a percentage of our total revenue was 72.4%. Any improper conduct of our distributors may materially and adversely affect our business and results of operations. In addition, after twenty years of operation, we have established ourselves as one of the most famous Pu'er tea brands in China. Counterfeiters may illegally manufacture and market tea leaf products under our brand. The occurrence of such incidents may have a negative impact on our reputation and brands.

Publicity about our business creates the possibility of heightened attention from the public, regulators and the media. Heightened regulatory and public concerns over customer protection and customer safety issues may subject us to additional legal and social responsibilities and increased scrutiny and negative publicity over these issues, due to our large number of transactions and continued business expansion. Any negative report regarding our business, financial condition and results of operations, regardless of its truthfulness, could damage our brand image and severely affect the sales of our products and possibly lead to product liability claims, litigations or damages. For example, after our submission of previous A share listing application in 2020, we became the subject of various negative reports that were inaccurate and misleading. Such inaccurate and misleading reports primarily related to our financial condition, relationship with distributors and food safety issues. Such reports or reports of similar nature may cause damage to our brand image and reputation. In addition, improper behaviors or statements of our spokespersons, endorsers and other celebrities we have cooperated with and our employees may result in substantial harm to our brand, reputation and operations. There is no assurance that we would not become a target for regulatory or public scrutiny in the future or that scrutiny and public exposure would not severely damage our reputation as well as our business and prospects.

We depend on sales to our distributors for most of our revenue, and distributors are expected to remain important in our sales network. If distributors are not able to operate successfully or we fail to maintain good relationships with such distributors, our business, financial condition and results of operations could be materially and adversely affected.

Our distributors are important to our business. As of December 31, 2020, 2021 and 2022, there were 566, 531 and 508 distributors in our distribution network, respectively. In 2020, 2021 and 2022, revenue from our distributors accounted for 79.0%, 80.3% and 72.4%

of our total revenue, respectively. Although the revenue generated from direct sale customers also experienced considerable growth during the Track Record Period, we expect that distributorship will remain an important component of our retail sales network.

Our distributors may not be able to market and sell our products successfully or maintain their competitiveness as a result of various factors. For example, our distributors may not be able to find suitable locations to operate retail points, and they may not be able to renew their leasing contracts with lessors upon expiration, both of which may adversely affect our distributors' operations and competitiveness. If the sales volumes of our products to consumers are not maintained at a satisfactory level, our distributors may not place orders for new products with us, or they may reduce orders or ask for discount on the purchase price. The loss of our distributors, or reduced orders from them, could adversely affect our access to consumers and our sales volume and revenue.

Although we require our distributors to comply with their distribution agreements with us, non-compliance with the distribution agreements by any of our distributors could disrupt our sales and may even affect our results of operations. We also could be liable for damages or fines due to the sales and marketing activities of our distributors, which may have an adverse effect on our financial condition. In addition, non-compliance with distribution agreements by any of our distributors could lead to our inability to track the sales and inventory levels of our distributors for our products, which may cause us to incorrectly predict sales trends and prevent us from quickly adjusting our marketing and product strategies.

If we fail to successfully maintain our relationships with a significant number of distributors or our distributors fail to operate successfully, our ability to effectively sell our products could be negatively impacted. These and similar actions could also negatively affect our corporate and product image, possibly resulting in loss of customers and a decline in sales. In addition, distributors selling the same products at uniform retail prices may result in marketing overlaps, cannibalization or even competition among these distributors. We cannot assure you that the expansion of our sales network will continue to be successful or will generate income as expected.

We rely on our distributors to place our products into the market and our distributor management may not be as effective as we anticipate.

As of December 31, 2022, our distributor sales network consisted of 508 distributors and covers substantially all provincial administrative divisions across China. As we mainly sell and distribute our products through distributors, any one of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial condition and results of operations:

- reduction, delay or cancelation of orders from one or more of our distributors;
- failure to renew distribution agreements and maintain relationships with our existing distributors;

- failure to establish relationships with new distributors on favorable or even standard terms; and
- inability to timely identify and appoint additional or replacement distributors upon the loss of one or more of our distributors.

We may not be able to successfully manage our distributors, and the cost of any consolidation or further expansion of our distributor sales network may exceed the revenue generated from these efforts. There can be no assurance that we will be successful in detecting any non-compliance by our distributors with the provisions of their distribution agreements. Non-compliance by our distributors may, among other things, negatively affect our brand, demand for our products and our relationships with other distributors. Furthermore, if the sales volumes of our products to distributors are not maintained at a satisfactory level or if distribution orders fail to track end customers' demand, our distributors may not place orders for new products from us or decrease the quantity of their usual orders. If any of our distributors fail to distribute our products to their customers in a timely manner, overstock or carry out actions, which are inconsistent with our business strategy, it may affect our future sales. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products, and therefore, adversely affect our financial condition and results of operations.

If we are unable to successfully manage our growth, our business and prospects may be materially and adversely affected.

As we believe that our business will continue to grow, we will continue to encounter challenges in implementing our managerial, operating and financial strategies to keep up with our growth. The major challenges in managing our business growth include, among other things:

- effectively managing our distribution network expansion;
- effectively managing the daily operations of our retail sales network, including our self-operated stores and self-operated online stores;
- controlling costs in a competitive environment;
- continuing to introduce new products and timely upgrade existing products to cater to evolving consumers' tastes;
- promoting, maintaining and capitalizing on our brand awareness;
- retaining existing customers and attracting new customers;
- remaining competitive in our industry;
- effectively managing our supply chain and ensuring our third-party suppliers continue to meet our quality and other standards and satisfy our future operations' needs;

- maintaining and upgrading our technology systems and data analytical capabilities in a cost-effective manner;
- attracting, training and retaining a growing workforce to support our operations;
- implementing a variety of new and upgraded internal systems and procedures as our business continues to grow; and
- ensuring full compliance with relevant laws and regulations.

In particular, we may not be able to effectively manage the expansion of our distribution network. The number and timing of distributor-operated stores opened during any given period are subject to a number of factors, including our distributors' ability to identify suitable locations for opening new stores, secure leases on commercially reasonable terms, obtain adequate funding for store expansion, execute the stores opening process efficiently and obtain all required licenses, permits and approvals for new stores, and our ability to effectively manage supply chain and control product quality, and recruit, train and retain skilled employees, among other things.

Any factors listed above, either individually or in aggregate, may delay or hinder our plan to increase the number of stores in desirable locations at manageable cost levels. In addition, we may incur additional operating expenses at store, distribution and headquarter levels as we continue to expand our store network. If we fail to manage our expansion of stores in a cost-effective manner, our business, results of operation and financial condition may be materially adversely impacted. Furthermore, consumers' demand for our products and services may not be as strong as we expect to support our business growth, which may result in over-expansion of our sales network.

We plan to expand our offline presence. Although such expansion plan, which we believe will allow us to increase market shares while achieving sustainable profitability in the long term, was determined by our management based on thorough market analyses, we cannot assure you that actual market demands will meet our expectation. If our expansion plan turns out to be too aggressive, we may experience a significant decrease in sales of our existing stores, and as a result, our business, results of operation, liquidity and financial condition would be materially adversely impacted.

All efforts to address the challenges of our growth require significant managerial, financial and human resources. We cannot assure you that we will be able to execute managerial, operating and financial strategies to keep up with our growth. If we are not able to manage our growth or execute our strategies effectively, our growth may slow down, and our business and prospects may be materially and adversely affected.

Any product quality issue could materially and adversely affect our results of operations.

We believe that the quality of our products is critical to our success. During the Track Record Period, the value of our returned products had been insignificant compared to our total revenue. Specifically, in 2020, 2021 and 2022, the total value of returned products represented 0.31%, 0.41% and 0.48% of our total revenue, respectively. In addition to risks associated with the processing and labelling of our products, some third parties, such as (1) suppliers of raw materials and packaging materials, (2) logistics service providers, and (3) distributors, could also affect the quality of our products or lead to inventory obsolescence if these third parties fail to provide raw materials, packaging materials or services to us with satisfactory quality.

Our quality control systems primarily consist of quality control measures for raw materials and packaging materials, production process, inventory storage, and delivery and sales. See "Business—Production" and "Business—Quality Control." The effectiveness of our quality control systems depends on a number of factors, including the design of our quality control systems and our ability to ensure our employees complying with our quality control policies and procedures. Although we had only received returned products with insignificant value compared to our total revenue during the Track Record Period, we cannot assure you that the design of our quality control systems will be effective at all times. We also cannot assure you that all our employees will always comply with the quality control policies and will not make any mistakes when executing quality control procedures.

Any product quality issue resulted from failure of our quality control systems or other reasons could expose us to product liability claims, negative publicity, government scrutiny, investigation or intervention, administrative actions and product recalls or returns, which could materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

Fluctuations in prices and changes in the quality of rough tea leaves and packaging materials could materially and adversely affect our profitability and results of operations.

Our ability to control our costs, in part, depends on our ability to secure rough tea leaves, our primary raw materials, and packaging materials, that meet our quality standards at reasonable prices. Our packaging materials primarily consist of cardboard and metal packaging materials. The costs of raw materials and packaging expenses accounted for 67.0%, 70.4% and 58.6% of our total cost of sales in 2020, 2021 and 2022, respectively. Going forward, we expect our cost of raw materials and packaging materials to continue to account for a relatively large portion of our costs of sales.

The procurement price of our rough tea leaves and packaging materials could be volatile due to a variety of factors beyond our control. The price of rough tea leaves and packaging materials may be affected by factors such as the global and PRC economic condition, relevant government regulations and policies, and changes in supply and demand. In particular, the supply of rough tea leaves may be negatively affected by factors such as adverse weather conditions and pest disasters, which could lead to an increase in the procurement price of rough tea leaves.

We rely on suppliers to supply rough tea leaves and packaging materials that meet our quality standards. We may fail to ensure the comprehensiveness and effectiveness of their quality control systems. Although we conduct sampling inspection for rough tea leaves and packaging materials after they are delivered to us by suppliers, we cannot assure you that we will be able to detect all quality defects in rough tea leaves and packaging materials in a timely manner.

Any increase in the prices of rough tea leaves and packaging materials may cause us to adjust our product prices upward, which could in turn reduce the competitiveness of our products. In cases where rough tea leaves and packaging materials prices increase, and we choose not to increase the price of our products to maintain competitiveness despite the increases in costs, it would render us unable to pass on such costs to our customers and adversely affect our profitability.

We do not own any tea leaf plantation or any tea trees and depend on tea leaf cooperatives for rough tea leaves as raw materials for our tea leaf products. If we are not able to source adequate rough tea leaves from tea leaf cooperatives or fail to maintain good relationships with such cooperatives, our business, financial condition and results of operations could be materially and adversely affected.

Tea leaf cooperatives are crucial to our business as we do not own any tea leaf plantation or tea trees, and thus, depend on tea leaf cooperatives for rough tea leaves as raw materials for our tea leaf products. In 2022, more than 50% of our purchase amount of rough tea leaves were attributable to tea leaf cooperatives with over five years' business relationship with us, and more than 30% were attributable to tea leaf cooperatives with over ten years' business relationship with us. However, if we fail to successfully maintain our business relationships with a significant number of tea leaf cooperatives, our ability to effectively produce our tea leaf products could be negatively impacted. Similarly, if we are not able to source adequate rough tea leaves from tea leaf cooperatives, our business, financial condition and results of operations could be materially and adversely affected.

The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products and our business operations.

The outbreak of COVID-19 that began in late 2019 has materially and adversely affected the global economy. In response to the pandemic, the Chinese government implemented travel restrictions and social distancing measures from time to time to contain the spread of the pandemic during the past three years. While the pandemic came under control in China from the second quarter of 2020, there was a significant rise in COVID-19 cases, including the COVID-19 Delta and Omicron variant cases, in various cities in China in 2022. The local governments of the affected cities had then reinstated certain COVID-related measures, including travel restrictions, quarantine policy and stay-at-home orders. For example, infections in Shanghai forced the Chinese government to impose a general quarantine on the city for two months, and Guangdong Province experienced multiple outbreaks that significantly reduced traffic in offline stores. In December 2022, the Chinese government eased its strict COVID-19 restrictions, representing a significant shift from the zero-COVID policy that China had maintained for the past three years. Since such policy changes, China has experienced a surge in COVID-19 infections across the country.

Throughout 2022, multiple outbreaks of new variants of COVID-19 across China has repeatedly caused disruptions to the operation of our stores in the affected regions, including temporary store closures, reduced operating hours, reduced offline customer traffic and canceled tea tasting sessions as a result of pandemic control measures in public places to contain the spread of viruses. We were forced to wage certain marketing campaigns online instead of offline or even abandon the planned marketing campaigns. For example, we were forced to abandon our plans for *Journey Home* (回家之旅) and *Yangcheng Golden Autum* (羊城金秋) in 2022 due to lack of feasibility. Our results of operations for 2022 were negatively affected by the resurgence of COVID-19 in China, primarily due to (1) disruption in our business operations, such as disrupted offline store operations in affected regions and cancellation of certain offline campaigns, and (2) consumer pessimism in light of the pandemic which suppressed the demand for our products. More specifically, our revenue decreased by 17.1% from RMB558.7 million in 2021 to RMB462.9 million in 2022. Our net profit decreased by 45.3% from RMB129.0 million in 2021 to RMB70.5 million in 2022. The average purchasing amount per distributor from us decreased by 21.9% from RMB0.85 million in 2021 to RMB0.66 million in 2022.

In 2022, the resurgence of COVID-19 had slowed down and created hurdles for our overall expansion plan. In terms of our offline sales network expansion, we have taken a more cautious approach and plan to continue to take such approach until the complete alleviation of the current surge of COVID-19 infections that began in December 2022. The number of our self-operated stores and distributor-operated stores decreased slightly from 26 and 531 as of December 31, 2021 to 24 and 508 as of December 31, 2022, respectively. Since the Chinese government's pandemic-related policy shifts, all of our stores had resumed normal business operations as of the Latest Practicable Date. We have not observed significant impact that COVID-19 outbreaks have had on our supply chain or any abrupt decline in utilization rates of our production plants as Yunnan Province, where all of our production plants and most of our suppliers are located, was less affected by the outbreaks. Our logistics and transportation service providers in certain provinces in China have been affected by COVID-19 outbreaks, especially the surge after the pandemic-related policy shifts. For example, delivery of our products in affected cities, such as Xi'an, Guangzhou and Shanghai, were affected. While we were not subject to any claim due to delays in deliveries of our products as of the Latest Practicable Date, disrupted transportation experienced by our logistics and transportation service providers reduced sales volume of our products and slowed down our expansion in certain affected provinces to certain extent. As of the Latest Practicable Date, most of our employees had recovered once or more from COVID-19 infections.

Given that the recent relaxation of the strict pandemic control measures, we believe that while COVID-19 outbreaks have affected and may continue to affect our short-term growth, we do not expect such outbreaks to have a material adverse effect on our long-term overall business and financial performance. In response to COVID-19 outbreaks, we have proactively taken measures to mitigate its potential impact on us and our distributors, including adjusting our product launching plan, increasing spending on marketing and advertising, and providing more support to our offline stores.

The COVID-19 pandemic may also have the effect of heightening other risks disclosed in this section, including but not limited to those related to:

- decreased consumer demand for our products, which may be caused by their fear of an economic downturn;

- decreased offline marketing activities, caused by circumstances beyond our control;
- disruption of the operations of our business partners, including our processing partners, logistics service providers and other suppliers; and
- increase volatility or significant disruption of global capital markets due in part to the COVID-19 pandemic, which may adversely affect our ability to access capital markets and other funding sources on acceptable terms or at all.

The actual impact caused by the COVID-19 pandemic will depend on its subsequent development. We cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and occasional regional resurgence of COVID-19 cases in certain areas in China. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any potential impact on our business operations.

Any failure to successfully upgrade our existing products or to develop, launch and promote new products may adversely affect our business development plans and profitability.

The choices and preferences of consumers may be influenced by new products that appear in the market. To support our product upgrade and expansion plans, we need to devote significant resources in researching and developing our products and recruiting production and marketing professionals that are appropriate for our products. All these tasks involve risks, and require substantial planning, effective execution and significant expenditures.

We cannot assure you that our upgraded or new products will be able to generate positive cash flows or become profitable within a short period of time or at all. If we fail to bring upgraded or new products to the market in a cost-effective manner, our profitability, results of operations and business prospects may be adversely affected.

Any failure to manage our inventory effectively would materially and adversely affect our results of operations, financial condition and cash flows.

As of December 31, 2020, 2021 and 2022, we had inventories of RMB470.3 million, RMB635.7 million and RMB783.7 million, respectively. In 2020, 2021 and 2022, our inventory turnover days were 1,345 days, 1,061 days and 1,641 days, respectively. Our business relies on consumer demand for our products, which in turn depends substantially on factors such as (1) consumer spending patterns, (2) consumer preferences and tastes, (3) consumer income, (4) consumer perceptions of and confidence in our product quality and food safety, and (5) consumer awareness of healthy lifestyle. Any change in consumer demand for our products or the occurrences of catastrophic events may have an adverse impact on our product sales, which may lead to inventory obsolescence, decline in inventory value or inventory write-off.

In addition, maintaining a certain amount of inventory also exposes us to the risk of inventory loss. As we have not purchased inventory insurance in full, in the event of natural disasters or other accidents such as fires caused by our employees or third parties, we may not be able to obtain sufficient compensation from the insurance company to cover our losses. At the same time, taking legal actions, such as filing a lawsuit, against such employees or third parties may divert our management's attention from our business.

Furthermore, as we will not be able to recoup our cash paid for rough tea leaves and packaging materials during the production process until the finished products are sold to our direct sale customers and distributors, and the purchase price is settled, our business is subject to significant working capital requirements given the high inventory level and inventory turnover days. If our inventory level increases substantially in the future, our financial condition and cash flows could be materially and adversely affected.

We may not be able to maintain our revenue growth and profitability.

Our revenue increased from RMB405.5 million in 2020 to RMB558.7 million in 2021 and decreased to RMB462.9 million in 2022. Our net profit margin in 2020, 2021 and 2022 was 30.3%, 23.1% and 15.2%, respectively. We cannot assure you that the demand for our products will continue to grow at a similar rate in the future due to reasons including market saturation as well as competition from new market participants and alternative products. Also, we cannot assure you that we will be able to sustain high profitability in the future, which depends on whether we can continue (1) generating a high level of sales revenue; (2) managing effectively the production costs; and (3) managing effectively the costs and expenses associated with operations, sales and marketing. If we fail to manage our growth or sustain our profitability effectively, our business, financial condition and results of operations could be adversely affected.

We recorded negative cash flows from operating activities during the Track Record Period, which may have an adverse effect on our business, financial condition, results of operations and prospects.

We recorded net cash used in operating activities of RMB9.0 million for the year ended December 31, 2021. For further details, see "Financial Information—Liquidity and Capital Resources—Cash Flows." Net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements.

While we believe we have sufficient working capital to fund our current operations, we may, however, experience net cash outflows from our operating activities in the future. If we are unable to maintain adequate working capital, we may default in our payment obligations and may not be able to meet our capital expenditure requirements or pursue our growth strategies, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our marketing activities may not be effective in attracting consumers, which may in turn adversely affect our results of operations.

We conduct various marketing activities to raise our brand awareness and promote our products. We promote our brand and products to consumers through online and offline campaigns. We communicate with consumers in a comprehensive approach through advertising, campaigns, film promotion activities, product placement in television programs, celebrity endorsements, social media marketing, and cross-industry cooperation. We may incur significant selling and marketing expenses for these marketing campaigns. In 2020, 2021 and 2022, our selling and marketing expenses were RMB87.0 million, RMB122.2 million and RMB136.4 million, respectively. In the same years, our advertising and promotion expenses were RMB33.8 million, RMB39.3 million and RMB39.9 million, respectively, representing 8.3%, 7.0% and 8.6% of our total revenue, respectively.

We cannot assure you that our marketing activities will enable us to achieve our sales targets. The effectiveness of sales and marketing activities is relatively hard to predict and evaluate. Their effects may be delayed, resulting in a delayed revenue growth which may not be fully reflected during the period in which the sales and marketing activities took place. If the results of our marketing activities fail to meet our expectation, or if we fail to conduct the marketing activities as planned, our results of operations, financial condition, market share, brand and reputation may be adversely affected.

We may not be successful in expanding into online channels and other sales channels.

We sell our products to consumers through an extensive network of stores across China and various online platforms including Tmall, WeChat, Douyin, Kuaishou, JD.com and Vipshop. We have also expanded our online sales channels by engaging online key account customers. In 2022, 11.7% of our total revenue was from sales made through our self-operated online stores.

We expect to further enhance our online strategies and increase sales from our online channels, such as through cooperation with other notable online platforms. However, we may not be able to maintain a high growth rate of our online sales. If we fail to manage the continuous development of our online sales, our business, financial condition and results of operations may be adversely affected. In addition, we may incur additional expenses in connection with service fees that we are contractually required to pay to the relevant parties in order to continue using their online platforms, which in turn may have a material adverse impact on our results of operation and profitability.

Our operating results could be affected by our online brand marketing efforts and advertising activities. If our online marketing and advertising programs may not continue to be successful, our business and operating results may be materially and adversely affected. In addition, we believe marketing trends in China are evolving, which requires us to experiment with new sales channels to keep pace with industry developments and consumer preferences. Moreover, as we continue to make efforts in this regard, we expect our operational and marketing expenses relating to cooperation with new channels to continue to increase.

We may be subject to liability for placing advertisements with content that is deemed inappropriate or misleading under PRC laws.

Our advertising materials are primarily produced by our in-house advertising department, and we may from time to time engage third party service providers for advertisement production and placement. PRC laws and regulations prohibit advertising companies from producing, distributing or publishing any advertisement with content that violates PRC laws and regulations, impairs the national dignity of the PRC, involves designs of the PRC national flag, national emblem or national anthem is considered reactionary, obscene, superstitious or absurd, is fraudulent, or disparages similar products. We may also be subject to claims by customers misled by information in our advertisements. If the advertising materials produced by our third party service providers contain inappropriate or misleading information, we may not be able to recover our losses from such advertisers by enforcing the indemnification provisions in the contracts, which may result us in diverting management's time and other resources from our business and operations to defend against these infringement claims. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Any delivery delay, improper handling of goods or increase in transportation costs of our logistic service providers could adversely affect our business and results of operations.

We engage logistics service providers to transport products to our direct sale customers and distributors. In 2020, 2021 and 2022, our transportation expenses were RMB5.2 million, RMB6.7 million and RMB7.7 million, respectively, representing 1.3%, 1.2% and 1.7% of our total revenue, respectively. The services provided by our logistics service providers may be suspended or cancelled due to unforeseen events, which could cause interruption to the sales or delivery of our products. In addition, delivery delays may occur for various reasons beyond our control, including improper handling by our logistics service providers, labor disputes or strikes, acts of war or terrorism, outbreaks of epidemics, earthquakes and other natural disasters.

Any improper handling of our products by the logistics service providers could also result in product contamination or damage, which may in turn lead to product recalls, product liabilities, increased costs and damage to our reputation. As such, our business, financial condition and results of operations could be materially and adversely affected.

The transportation costs of our logistics service providers are subject to factors beyond our control, such as the fluctuation in the gasoline price, increases in road tolls and bridge tolls, and changes in transportation regulations. Any increase in the service costs of our logistics service providers may lead to an increase to our logistic expenses, which may in turn negatively affect our results of operations.

Any natural disaster or other catastrophic event affecting our supply chain management, production process or the demand for our products may materially and adversely affect our business.

Our ability in supply chain management and efficient manufacturing is critical to our success. Any delay or disruption in our supply chain may adversely affect our ability to perform our contractual obligations to our customers.

Our tea leaf products are manufactured through a series of sophisticated processes. Problems may arise during the production process for a variety of reasons, including quality defects in rough tea leaves or packaging materials, lack of production conditions or suspension of production due to natural disasters (such as storms, earthquakes, fires and floods) or other catastrophic events (such as explosions, acts of terrorism, wars and outbreaks of epidemics), strikes, power outages, technical or mechanical problems, failure to follow production safety protocols, failure to promptly upgrade equipment and production and operational software systems, and the infection or hacking of such software systems. Any of the above could impair our business or the businesses of our suppliers, which would in turn impede our ability to manufacture and deliver our products to our customers in a timely manner.

Any major changes in relation to food safety regulations and relevant policies may affect our business.

Manufacturers within the tea industry in China must comply with PRC food safety laws and regulations. These food safety laws and regulations require all enterprises engaged in the production of food and beverages to obtain the food production permits. They also set out safety standards with respect to food and food additives, packaging and containers, information to be disclosed on packaging as well as requirements for food production and sites, facilities and equipment used for the transportation and sale of food. In recent years, the PRC government has been strengthening the supervision of food safety. The revised Food Safety Law of the People's Republic of China (中華人民共和國食品安全法) and the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (中華人民共和國食品安全法實施條例) stipulate that businesses engaged in food production should conduct their production and operation activities according to the applicable laws and regulations and food safety standards, establish a comprehensive food safety management system, and take effective measures to prevent and control food safety related risks to ensure the safety of the food produced. This may increase the compliance costs of the tea companies in China like us. In the event that the PRC government further makes changes on food safety regulation, our production, sales and distribution costs may increase, and we may be unable to successfully pass on these additional costs to our customers, which could adversely affect our business, financial condition and development prospects.

Incidents involving food-related illnesses, tampering, adulteration, contamination or mislabeling, whether or not accurate, as well as adverse public or medical opinions about the health effects of consuming our products, could harm our business.

Instances or reports, whether true or not, of food-safety issues, such as illnesses, tampering, adulteration, contamination or mislabeling, either during growing, manufacturing, packaging, transportation, storing or preparation, employee hygiene and cleanliness failures or improper employee conduct, have in the past severely injured the reputations of companies in the food sector. Any report linking us to such instances could severely hurt our sales and could possibly lead to product liability claims, litigation and/or temporary store closures. In addition, instances of food or beverage-safety issues, even those involving solely the stores of competitors or distributors (regardless of whether those distributors are associated with us), could, by resulting in negative publicity about us or the food service industry in general, adversely affect our sales on a regional or global basis. A decrease in consumer traffic as a result of food-safety concerns or negative publicity, or as a result of a temporary closure of any of our stores, product recalls or food safety claims or litigation, could materially harm our business and results of operations.

We may be exposed to the risk of product infringement.

We may be exposed to the risk of product infringement. We cannot assure you that there will be no counterfeit or forgery of our products, trademarks or brands in the market. Counterfeiters may illegally manufacture and market tea leaf products under our brand. Such counterfeit or forged products are usually difficult to detect or ban in a timely manner. The occurrence of such incidents may have an impact on our reputation and brands. Our reputation and brands are crucial to our profitability and competitiveness, any damage to our reputation or brands resulting from product infringement may adversely affect our profitability and competitiveness.

Our investment, maintenance or upgrade regarding our production equipment and facilities, technologies and other equipment related to operations may not be carried out successfully, which may in turn adversely affect our business growth.

In order to ensure the continuous operation and expansion of our business, we continuously maintain the existing production equipment and facilities, expand the production capacity through upgrading our existing equipment and establishing new production facilities, purchase new production equipment and improve production techniques. In addition, we allocate our human resources and other resources to manage these undertakings. We cannot assure you that such investments, maintenance and upgrades could be carried out successfully, or generate positive cash flows or profitable return within a short period of time. Such investments, maintenance and upgrades may become ineffective or obsolete as a result of updates in technology or industry standards, which could result in a material adverse effect on our business and financial condition.

Our ability to achieve business growth is also subject to a wide range of market, operational and financial risks, including those arising from the competition with existing competitors, changing consumer spending patterns, as well as maintaining our high food safety standards and our existing relationships with distributors. Under the influence of these risks, our investments and upgrades may not be able to generate the expected business growth, which may materially and adversely affect our financial condition and results of operations.

We may not be able to retain or promptly recruit senior management members or other key personnel required for our operations.

Our current business performance and future success depend substantially on the abilities and contributions of our senior management members, including Ms. Du and Ms. Wang (our Controlling Shareholders), all executive Directors and other key personnel with industry expertise, know-how or experience in areas such as research and development, production, sales, marketing, financial management, human resources or risk management. Any loss of such personnel could materially and adversely affect our ability to sustain and develop our business. Moreover, we cannot assure you that our key personnel will not join a competitor or form a competing business or will follow the terms and conditions of their employment contracts. As competition for talents such as skilled technical personnel and experienced management is fierce in our industry, any loss of key personnel or failure to promptly recruit such personnel for our future business development may adversely affect our business.

We, our Directors, management and employees may be subject to litigation and regulatory investigations and proceedings, such as claiming in relation to food safety, commercial, labor, employment, antitrust or securities matters, and may not always be successful in defending ourselves against such claims or proceedings.

We face potential liability, expenses for legal claims and harm due to our business nature. For example, customers could assert legal claims against us in connection with personal injuries related to food poisoning or tampering. The PRC government, media outlets and public advocacy groups have been increasingly focused on customer protection in recent years. See "Regulatory Overview—Protection of Consumer Rights and Interests." Sales of defective products may expose us to liabilities associated with customer protection laws. Sellers may be responsible for compensation on customer's loss even if the contamination of food is not caused by the sellers. Thus, we may also be held liable if our suppliers or other business partners fail to comply with applicable food-safety related rules and regulations. Though we can ask the responsible parties for indemnity after that, our reputation could still be adversely affected. In addition, our Directors, management and employees may from time to time be subject to litigation and regulatory investigations and proceedings or otherwise face potential liability and expense in relation to commercial, labor, employment, antitrust, securities or other matters, which could adversely affect our reputation and results of operations.

After we become a [REDACTED] company, we may face additional exposure to claims and lawsuits. These claims could divert management time and attention away from our business and result in significant costs to investigate and defend, regardless of the merits of the claims. In some instances, we may elect or be forced to pay substantial damages if we are unsuccessful in our efforts to defend against these claims, which could harm our business, financial condition and results of operations.

We may undertake strategic partnerships which may not be successful. If our collaboration with any of our strategic partners is terminated or curtailed, or if we are no longer able to benefit from the business collaborations with our strategic partners, our business may be adversely affected.

Our business has benefited from our collaborations with our strategic partners in the areas such as online ordering and payment, supply chains and joint marketing. We cannot assure you that such alliances or partnerships will contribute to our business, and we might not be able to maintain our cooperative relationships with our strategic partners and their respective affiliates in the future. If the services provided by these strategic partners become limited, compromised, restricted, curtailed or less effective or become more expensive or unavailable to us for any reason, our business may be materially and adversely affected. To the extent we cannot maintain our cooperative relationships with any of these strategic partners, it may be difficult for us to identify other alternative partners at commercially reasonable terms, which may divert significant management attention from existing business operations and adversely impact our daily operation and customer experience.

Our performance depends on our ability to maintain good relationship with our employees, and any deterioration in relationships with our employees, shortage of labor or material increase in wages may have an adverse effect on our results of operations.

Our continued success partly depends on our ability to attract, motivate, retain and maintain good relationships with a sufficient number of qualified employees, such as tea production workers, retail store managers, marketing and sales specialists and other administrative and management personnel. We cannot assure you that we will be able to recruit or retain a sufficient number of qualified employees for our businesses or maintain good relationships with them, or can we assure you that we will not experience any shortage in labor. If there is a high turnover rate of employees and we fail to recruit enough qualified personnel and retain them due to various factors such as failure to keep up with the rising employee salary levels, we may fail to implement our growth strategy.

We strive to provide a safe and desirable working environment to our employees to prevent occupational hazards. However, we may be subject to liability claim, negative publicity and government investigation or intervention in relation to workplace safety or occupational hazards, in particular if our employees, third party service providers and the public suffer from personal injuries or casualties at our facilities or during the transportation of our products. Such incidents could worsen our relationship with our employees and damage our brand and reputation.

We cannot assure you that we will not have any labor disputes in the future. Any deterioration of our relationships with our employees could result in disputes, strikes, claims and relevant legal proceedings, which may disrupt our production and operations, and lead to loss of know-how and trade secrets. Any labor shortage could hinder our ability to maintain or expand our business operations, which may adversely affect our business operations and results of operations.

Our employment practices may be adversely impacted under the Labor Contract Law of the PRC.

The Standing Committee of the National People's Congress (全國人民代表大會常務委員會) promulgated the Labor Contract Law of the PRC (中華人民共和國勞動合同法), or the Labor Contract Law, which became effective on January 1, 2008 and was amended on December 28, 2012, and the State Council promulgated implementing rules for the Labor Contract Law on September 18, 2008. The Labor Contract Law and the implementing rules impose requirements concerning, among others, the execution of written contracts between employers and employees, the time limits for probationary periods, and the length of employment contracts. The interpretation and implementation of these regulations are still evolving, our employment practices may violate the Labor Contract Law and related regulations and we could be subject to penalties, fines or legal fees as a result. If we are subject to severe penalties or incur significant legal fees in connection with labor law disputes or investigations, our business, financial condition and results of operations may be adversely affected.

We may not be able to detect or prevent fraud, bribery, or other misconduct committed by our employees, customers or other third parties.

We may be exposed to fraud, bribery, or other misconduct committed by our employees, customers or third parties (such as construction service providers), which could subject us to financial losses and penalties from governmental authorities. Although our internal control procedures are designed to monitor our operations and ensure overall compliance, our internal control procedures may be unable to identify all non-compliances, suspicious transactions, fraud, corruption or bribery in a timely manner. If such misconduct occurs, we will suffer from negative publicity and reputation damages.

Any failure to protect our intellectual property rights could undermine our competitive position, and litigation to protect our intellectual property rights may be costly and ineffective.

We consider our trade secrets, trademarks, trade names, patents and other intellectual property important to our business. From time to time, our intellectual properties may have been infringed by third parties. Preventing intellectual property infringement, particularly in the PRC, is difficult, costly and time-consuming, and continued unauthorized use of our intellectual properties by unrelated third parties may damage our reputation and brand image. The measures we take to protect our trademarks, patents, trade secrets and other intellectual property rights may not be adequate to prevent intellectual property infringement by third parties. If we are unable to adequately protect our trademarks, patents, trade secrets and other intellectual property rights, we may lose these rights, our brand image may be harmed, and our competitive position and business may suffer.

We may face intellectual property infringement claims by third parties, which could disrupt our business, cause substantial legal costs, and damage our reputation.

We cannot assure you that our products will not infringe any intellectual property rights held by third parties in the future. We may face claims of infringement of third parties' proprietary rights or claims for indemnification resulting from infringement arising from our products. In addition, we may be unaware of intellectual property registrations or applications relating to our products or business operations that may give rise to potential infringement claims against us. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by third parties. We are subject to additional risks as a result of the hiring of our current and new employees, especially those that were previously employed by our competitors, who may misappropriate intellectual properties from their former employers.

Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our products or using relevant technology. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us could, among others things, make us to pay substantial damages, develop non-infringing technology, or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and cease manufacturing, selling or using products that have infringed a third party's intellectual property rights. Any intellectual property claim or litigation, regardless whether we ultimately win or lose, could damage our reputation and have a material adverse effect on our business, results of operations or financial condition.

We may not be able to generate sufficient cash flow from operations to repay our bank borrowings.

Our bank borrowings primarily consist of bank loans that are either secured or unsecured. As of December 31, 2020, 2021 and 2022, our bank borrowings of RMB110.8 million, RMB154.9 million and RMB208.2 million were at variable interests rate, respectively, and as of the same dates, our bank borrowings of RMB3.0 million, nil and RMB3.0 million were at fixed interests rate, respectively. We intend to repay these bank borrowings with cash generated from our operations. Alternatively, if a suitable opportunity is available, we may choose to refinance them with other borrowings. There can be no assurance that our business will generate sufficient cash flow from operations to repay these borrowings. In addition, repaying these borrowings with cash generated by our operating activities will divert our financial resources from the requirements of our ongoing operations and growth, and may have a material adverse effect on our business, prospects, financial condition and results of operations. Any acceleration of indebtedness may cause defaults and cross defaults under our current and future financing agreements, and as well as significant reductions in our liquidity and may have a material adverse effect on our business, prospects, financial condition and results of operations. Further, as of December 31, 2020, 2021 and 2022, our property, plant and equipment of RMB67.6 million, RMB85.6 million and RMB81.5 million were pledged as collateral for our bank borrowings. We may lose part or all of pledged property if we default on these secured borrowings, which would have a material adverse effect on our business, prospects, financial condition and results of operations.

We may not fully recover our deferred income tax assets, which may affect our financial positions in the future.

We had deferred income tax assets of RMB29.6 million, RMB47.6 million and RMB53.1 million as of December 31, 2020, 2021 and 2022, respectively. Our deferred income tax assets relate to deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts to the extent that the utilization of such differences and losses against future taxable profits is probable. This requires significant judgment on the tax treatments of transactions and an assessment of the probability that adequate future taxable profits will be available for the deferred income tax assets to be utilized. The carrying amount of deferred income tax assets is reviewed at the end of each period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. We cannot guarantee we can recover or predict the movement of our deferred income tax assets. Failure to recover deferred income tax assets may adversely affect our financial position in the future. See Note 30 to the Accountant's Report in Appendix I to this document for details of our deferred income tax assets during the Track Record Period.

We may face risk regarding investments in associates, and the share of results of associates may adversely affect our financial performance.

We had investments in associates of RMB0.3 million, RMB11.0 million and RMB21.6 million as of December 31, 2020, 2021 and 2022, respectively. Our investments in associates primarily related to our equity interests in a number of associate companies engaged in sales of tea and tea ware products, provision of tea leaves purchase service and development of a tea cultural tourist town.

However, our investments in associates may not guarantee a share of profits, and any loss incurred by any of these associates shall be apportioned among our Group and other shareholders of each of such associates. If any of these associates does not perform as expected or does not generate sufficient revenue in any financial year, our return of investments in associates, financial performance and financial position, could be materially and adversely affected. In addition, there can be no assurance that our investments in associates will achieve the results intended and we may be subject to liquidity risk. Our investments in associates are not as liquid as other investment products as there is no cash flow until dividends are received even if such associates reported profits under the equity accounting. Furthermore, the possibility to promptly sell one or more of our interests in associates in response to changing economic, financial and investment conditions is uncertain. We cannot predict whether we will be able to sell any of our interests in our associates for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. Therefore, the illiquidity nature of our investments in associates may significantly limit our ability to respond to adverse changes in the performance of such associates. We cannot assure you that there would not be any impairment charging on our investments in associates in the future. If we record impairment losses on our investments in associates in the future, our business, financial condition and results of operations may be materially and adversely affected.

Going forward, from time to time, we may evaluate various investment opportunities, including investment in other associates or joint ventures in relation to associates. Any future investments in associates may entail numerous risks, such as increased cash requirements and additional indebtedness or contingent or unforeseen liabilities.

We are exposed to risks associated with the fair value change in financial assets measured at fair value through other comprehensive income and valuation uncertainty regarding the use of unobservable inputs.

We had financial assets at fair value through other comprehensive income of RMB12.9 million, RMB12.5 million and RMB11.8 million as of December 31, 2020, 2021 and 2022, respectively, which represented our equity interest in a rural commercial bank in Lancang. See "Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Financial Asset at Fair Value through Other Comprehensive Income." During the Track Record Period, we measured our financial assets at fair value through other comprehensive income using unobservable inputs. See Note 3.3 to the Accountant's Report in Appendix I to this document. A variety of factors such as general economic and market conditions can significantly influence and cause adverse changes to the assumptions and estimates we use and thereby affect the fair value of our financial assets. Such factors could cause our estimates to vary from actual results and result in the substantial fluctuation in the fair value of our financial assets. We cannot assure you that we will not have our financial assets at fair value measured using unobservable inputs in the future. Any material declines in the fair value of our financial assets and the uncertainty due to the use of unobservable inputs for valuation may have a material adverse effect on our financial condition.

Our failure to recover a significant portion of our trade and other receivables in a timely manner may have a materially adverse effect on our business and financial results.

We generate trade receivables in the ordinary course of business. Our trade receivables primarily consist of receivables due from third parties in connection with their purchases of our products. We generally require payment before delivery, particularly for our flagship products. Any sales on credit to distributors shall not exceed the amount of cash deposit for performance bond such distributor has put with us. For key account customers, our sales collection generally follows payment cycles pre-negotiated with such customers, which were typically 60 days during the Track Record Period. As of December 31, 2020, 2021 and 2022, our trade and notes receivables was RMB1.5 million, RMB14.8 million and RMB23.5 million, respectively. In the event that our trade or other receivables increase significantly and we fail to collect these receivables in a timely manner, our financial condition and business operations may be materially and adversely affected. See "Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Trade and Other Receivables."

We may recognize impairment loss on our prepayments.

We recorded current prepayments of RMB11.7 million, RMB23.7 million and RMB38.2 million as of December 31, 2020, 2021 and 2022, respectively. During the Track Record Period, our prepayments primarily consisted of prepayments for [REDACTED] expenses, prepayments for advertising and promotion expenses, input VAT available for future deduction, and prepayments for purchase of raw materials and packaging materials. Although we did not experience material defaults for our prepayments during the Track Record Period, we cannot assure you that there would not be any impairment charging on our prepayments in the future. If we record impairment losses on our prepayments in the future, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to perform our contractual obligation, our liquidity and financial positions may be materially and adversely affected in the future.

As of December 31, 2020, 2021 and 2022, our contract liabilities were RMB22.1 million, RMB14.9 million and RMB4.9 million, respectively. Our contract liabilities mainly represent advance payments received from our customers. Contract liabilities would be recognized as revenue upon the delivery of our products. All of our contract liabilities balance as of December 31, 2020, 2021 and 2022 was recognized or expected to be recognized as revenue during the next financial year. See "Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Contract Liabilities" and Note 5 to the Accountant's Report in Appendix I to this document. However, if we fail to fulfill our obligations with respect to our contract liabilities, we may not be able to convert such contract liabilities into revenue as expected. Furthermore, if we fail to fulfill our obligations with respect to our contract liabilities, customers may request not to prepay us in the future. Any of these circumstances could materially and adversely affect our business, results of operations, cash flow and liquidity condition.

We have incurred and may continue to incur substantial share-based payment expenses.

We operate employee share scheme for directors and employees, under which we receive services from directors and employees as consideration for equity instruments of our Group. Under the employee share scheme, shares were issued by us to certain directors and employees through the share platform. See Note 26 to the Accountant's Report in Appendix I to this document. We believe the grant of share-based compensation is important to our ability to attract, retain and motivate our management team and qualified employees. The fair value of the employee services received in exchange for the grant of shares is recognized as an employee benefit expense with corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the shares granted at the grant date and the issue price. We recorded share-based payment expenses of RMB18.0 million in 2021. As a result, any additional grant of restricted share units will further increase our share-based payment expenses, which may adversely affect our financial performance, and dilute existing shareholders' shareholding.

Our information technology and software systems may encounter malfunction, unexpected system failure, interruption, insufficiency or security breaches.

We rely on our information technology and software systems to effectively manage various sales and distribution data, marketing activities and expenses data, production and operation data and financial and human resources data. Any significant failure in our information technology and software systems could result in transaction errors, processing inefficiencies and loss of sales and customers, or lead to loss or leakage of confidential information. We collect and store sensitive personal information such as customer contact information and their addresses for the purpose of our business needs. The security of such information is of paramount importance. Any security and privacy breaches on customer information may damage our customer relations and our reputation and may expose us to legal liability.

Our information technology and software systems may be subject to damage or interruption, primarily due to unexpected emergency circumstances beyond our control, including power outages, fire, natural disasters, systems failures, security breaches, unauthorized access to our information systems, hackings intended to cause malfunctions, loss or corruption of data, software, hardware or other computer equipment, intentional or inadvertent transmission of computer viruses and other similar events. We may also encounter problems when upgrading our systems, which could disrupt our operations and adversely affect our results of operations.

We are in possession of certain information regarding our customers, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation.

During our provision of tea leaf products, we collect and maintain personal information of our customers to the extent necessary for the sales and delivery of our products through e-commerce platforms, as well as our membership program, with their prior consents. The types of personal information we collect primarily include customer names, contact information and addresses for delivery. Unless otherwise provided in laws and administrative regulations, Personal Information Protection Law (個人信息保護法) (the "PIPL") only allows us to collect personal information of customers with their prior consents and to the extent necessary. The PIPL also requires us to protect the privacy of our customers, and prohibit unauthorized disclosure of their personal information. We may be liable for damages caused by divulging our customers' personal information without consent. In addition, there is a risk that such information could be compromised in the event of a security breach at our internal system. Such information could be divulged due to, for example, theft or misuse arising from staff misconduct or negligence.

We may be subject to additional cybersecurity review or inspection by government authorities.

On June 10, 2021, the Data Security Law (數據安全法) was adopted by the Standing Committee of the National People's Congress and became effective on September 1, 2021. On August 20, 2021, the PIPL was adopted by the Standing Committee of the National People's Congress and became effective on November 1, 2021. Pursuant to the Measures for Cybersecurity Review (網絡安全審查辦法) (the "Cybersecurity Review Measures"), which became effective in February 2022, critical information infrastructure operators that purchase network products and services and data processing operators engaging in data processing activities that affect or may affect national security must be subject to the cybersecurity review, reflecting the increased attention of the government authorities on data security and protection. However, the Cybersecurity Review Measures provides no further explanation or interpretation for "[REDACTED] abroad." Given that the expression used in the Cybersecurity Review Measures is "[REDACTED] in a foreign country" rather than "offshore [REDACTED]" and that Hong Kong is likely to be considered as "offshore" rather than "foreign country," it is not likely that a [REDACTED] in Hong Kong will be considered as "[REDACTED] in a foreign country." Furthermore, the exact scope of "critical information infrastructure operators" under the Cybersecurity Review Measures and the current regulatory regime remains unclear, and the identification rules of critical information infrastructure operators still need to be formulated and clarified by relevant Protection Work Departments (the competent departments and supervision and management departments of important industries and sectors) in future legislation.

On November 14, 2021, the Cyberspace Administration of China, or the CAC, published Regulations on Cyber Data Security Management (Draft for Comments) (網絡數據安全管理條例(徵求意見稿)) (the "Draft Regulations on Cyber Data Security Management"), which further elaborated a [REDACTED] in Hong Kong should not be treated as "[REDACTED] in a foreign country," which was mentioned in the Cybersecurity Review Measures. According to Draft Regulations on Cyber Data Security Management, seeking to be [REDACTED] in Hong Kong that affects or may affect the national security should be reported and undergo the cybersecurity review. According to National Security Law of the PRC (中華人民共和國國家安全法) issued by Standing Committee of the National People's Congress on July 1, 2015 and became effective on the same date, national security refers to a status in which the regime, sovereignty, unity, territorial integrity, welfare of the people, sustainable economic and social development, and other major interests of the state are relatively not faced with any danger and not threatened internally or externally and the capability to maintain a sustained security status.

However, we cannot assure you that we will not be deemed as a data processor that "affects or may affect national security" in the future. We may be subject to cybersecurity review by the competent government authority even upon completion of our [REDACTED]. If the data processing activities of a Hong Kong [REDACTED] company or a company that is in the process of applying for [REDACTED] in Hong Kong are deemed as "affecting or may affect national security" and such company has failed to conduct cybersecurity review according to the relevant laws and regulations, such company will be requested to take rectification actions, subject to disciplinary warning, and/or imposed an administrative penalty ranging from RMB50,000 to RMB500,000 for a single violation incident. Furthermore, if such violation causes material impact or such company refuses to rectify the violation, such company may be subject to more severe penalties, such as revocation of relevant licenses and/or permits. Therefore, if our business is deemed as "affect or may affect national security" when the Draft Regulations on Cyber Data Security Management become effective and we fail to conduct cybersecurity review according to the relevant laws and regulations and/or take rectification actions as required by the relevant competent government authority, we might be subject to more severe penalties, warnings or revocation of our licenses and/or permits, which could materially and adversely affect our business, reputation as well as financial performance.

On July 7, 2022, the CAC promulgated the Measures on Security Assessment of Outbound Data Transfer (數據出境安全評估辦法), effective September 1, 2022. These measures shall apply to the security assessment of the provision of important data and personal information collected and generated by data processors in the course of their operations within the territory of the PRC by such data processors to overseas recipients, or the outbound data transfer. Where there are other provisions in laws and administrative regulations, such other provisions shall prevail. These measures specify that an outbound data transfer by a data processor that falls under any of the following circumstances, the data processor shall apply to the CAC for the security assessment via the local provincial-level cyberspace administration authority: (1) outbound transfer of important data by a data processor; (2) outbound transfer of personal information by a critical information infrastructure operator or a personal information processor who has processed the personal information of more than 1,000,000 people; (3) outbound transfer of personal information by a personal information processor who has made outbound transfers of the personal information of 100,000 people cumulatively or the sensitive personal information of 10,000 people cumulatively since January 1 of the previous year; or (4) other circumstances where an application for the security assessment of an outbound data transfer is required as prescribed by the CAC. There is no outbound data transfer involved during our daily business operations.

Our Directors and our PRC Legal Advisor are of the view that the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management, if implemented in current form, will not have material adverse effects on our business operations or the proposed [REDACTED]. However, with the continuous expansion of our business and growth of our customer base, there can be no assurance that we will not be subject to national security review or the recent tightening of regulations on the collection and use of personal information by relevant government authorities in China will have no material adverse effect to our business operations in the future. If we cannot meet relevant requirements under the evolving applicable laws or regulations relating to data privacy, data protection or information security or any additional tax related requirements relating to data, or any compromise of security that results in unauthorized access, use or leakage of our customers' and/or distributors' personal information, we could face damage in our reputation or other negative consequences, such as investigations, fines, or suspension of our business, any of which could materially and adversely affect our business, financial condition and results of operations. In addition, complying with various laws and regulations on cybersecurity and data security could cause us to incur additional costs or require us to change our business practices, including our data practices, which may significantly distract our management's attention and adversely affect our business.

The payment methods that we accept may subject us to risks.

We accept a variety of payment methods including WeChat Pay, Alipay and Union Pay through third-party payment services. We pay service fees for such payment services, which may increase over time and raise our operating costs. We may also be subject to fraud, security breaches and other illegal activities in connection with the various payment methods we offer. If any of these happens, our financial condition and results of operations may be materially and adversely affected.

If we fail to effectively implement our future expansion plans, our business prospects may be adversely affected.

We may encounter risks when we develop new sales channels and markets in China. New sales channels and markets may have different regulatory requirements, competitive landscape, consumer preferences, spending patterns and operation environment from our existing channels and markets. We may need to increase our promotion efforts in these new sales channels and markets, establish appropriate operation model, distribution system, talent reserve, strengthen the financial management capability, and develop or adjust the information technology and software systems. In addition, we may need to search for suppliers and construct new production facilities based on the conditions of the new sales channels and markets. As a result, it may be relatively expensive and risky to expand new sales channels and markets and may take longer to reach targeted sales and profit levels. Furthermore, the construction plan for our new facilities may not be as smooth as we expected. We may even encounter protests from local residents, resulting in the delay or termination of these plans. If such plans are delayed or terminated, we may not be able to recover our relevant investment in time or at all.

We may from time to time pursue acquisitions that we believe would benefit our business. We have limited experience in acquisitions. We may not be able to successful execute any proposed acquisitions. In addition, we may be exposed to challenges in integrating the acquired companies into our existing operations. If we fail to achieve the desired results from acquisitions, our financial condition and results of operations may be materially and adversely affected.

We require a significant amount of capital to fund our operations and respond to business opportunities. If we cannot obtain sufficient capital on acceptable terms, our business, financial condition and prospects may be materially and adversely affected.

Expanding our store network, building a well-known brand and accumulating a large and continuously growing customer base are costly and time-consuming. A vast majority of our capital is invested to fund the capital expenditures and associated costs arising from our daily operations. Our capital expenditures during the Track Record Period consisted primarily of payments for purchase of right-of-use assets, purchase of property, plant and equipment and purchase of intangible assets, and amounted to RMB22.2 million, RMB41.5 million and RMB63.0 million in 2020, 2021 and 2022, respectively. Substantial and continuous investments in sales and marketing are also required for further establishing brand awareness among the mass population in China to attract new customers and retain existing ones. Our ability to obtain additional capital in the future, however, is subject to a number of uncertainties, including those relating to our future business development, financial condition and results of operations, general market conditions for financing activities by companies in our industry, and macro-economic and other conditions in China and globally. If we cannot obtain sufficient capital on acceptable terms to meet our capital needs, we may not be able to execute our growth strategies, and our business, financial condition and prospects may be materially and adversely affected.

We lease properties in various place as premises for our self-operated stores, office spaces and warehouses. Any non-renewal of leases, substantial increase in rent, or any failure to comply with applicable laws and regulations may affect our business and financial performance.

As most of our self-operated stores are currently located at leased properties, our operations are particularly susceptible to fluctuations in the property rental market. Before the expiry of each of our leases, we have to negotiate the terms of renewal with our respective lessors. The term of the lease agreements for our self-operated stores typically varies from one year to ten years, and the term for our office space typically varies from two years to eight years. There is no assurance that our existing leases would be renewed on similar or favorable terms or at all, in particular with respect to the amount of rent and the term of the lease. Any substantial increase in the rent of our leased properties may increase our property rental and related expenses, which could materially and adversely affect our profitability.

There is also no assurance that our existing leases will not be terminated early by the lessors before the expiry of the relevant term. In the event that we are required to relocate our self-operated stores or office space, there is no assurance that we will be able to identify comparable locations in a timely manner or at all or that we will secure a lease on comparable terms. We may also incur substantial reinstatement, relocation and renovation costs. In addition, it typically takes new stores a period of time to achieve a profitability rate comparable to the existing ones, due to factors such as the time needed to find suitable locations, build consumer awareness in the local community, renovate new stores, and integrate the operations of such stores into our existing sales network. Any non-renewal of lease of either of our self-operated stores or office space may have a material adverse effect on our business, results of operations and financial condition.

In addition, some of these leased properties do not meet certain property-related requirements under PRC laws and regulations. For example, as of the Latest Practicable Date, 26 of our lease agreements had not been registered with the relevant PRC authorities. As advised by our PRC Legal Advisor, failure to register an executed lease agreement will not affect its legality, validity or enforceability. However, we may be subject to a fine of no less than RMB1,000 and not exceeding RMB10,000 for each unregistered lease agreement if the relevant PRC government authorities require us to rectify and we fail to do so within the prescribed time period. See "Business—Properties—Leased Properties."

Further, we have entered into certain lease agreements with parties who have not provided us with evidence of proper legal title to the leased premises. If such parties are not the legal owners or they failed to obtain the proper authorization from the legal owners of the premises, and the actual owners successfully challenge the validity of the relevant lease, we would be forced to relocate. See also "Business—Properties—Leased Properties."

Any dispute or claim in relation to the titles of the properties that we occupy, including any litigation involving allegations of illegal or unauthorized use of these properties, could require us to relocate our business operations occupying these properties. If any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. We cannot assure you that we will be able to relocate such operations to suitable alternative premises, and any such relocation may result in disruption to our business operations and thereby result in loss of earnings. There is also no assurance that we will be able to effectively mitigate the possible adverse effects that may be caused by such disruption, including loss and costs. Any of such disruption, loss or costs could materially and adversely affect our financial condition and results of operations.

We received government grants during the Track Record Period, and any significant reduction of government grants offered to us may adversely affect our financial condition and results of operations.

During the Track Record Period, we received certain government grants as rewards for our contribution to the local economic growth. In 2020, 2021 and 2022, we recognized government grants of RMB8.3 million, RMB6.6 million and RMB6.5 million as other income, respectively. We cannot assure you that we will continue to receive such government grants or that the amount of such grants will not be reduced in the future. Any significant reduction of government grants received by us may adversely affect our financial condition and results of operations.

If our preferential tax treatment becomes unavailable or if the calculation of our tax liability is challenged by the PRC tax authorities, our results of operations may be adversely affected.

During the Track Record Period, we enjoyed preferential tax treatment under relevant preferential tax policies. We cannot assure you that we will continue to enjoy similar preferential tax treatment in the future. The PRC Enterprise Income Tax Law and its implementation rules have adopted a flat statutory enterprise income tax rate of 25% to all enterprises in China (if not entitled to any preferential tax treatment). During the Track Record Period, we paid an enterprise income tax rate of 25%, except for our Company and Pu'er Renhe, one of our subsidiaries, which enjoyed preferential tax treatment of an income tax rate of 15% pursuant to the Western Development Strategy. In addition, Chengdu Hekang Langu Tea Company Limited, one of our subsidiaries, enjoyed preferential tax treatment of an income tax rate of 20% for its status as a small low-profit enterprise in 2020. If we cease to be entitled to preferential tax treatment, our income tax expenses may increase, which would adversely affect our results of operations.

We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations.

We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations. Under relevant PRC laws and regulations, we are required to make social insurance fund and housing provident fund contributions for our employees. During the Track Record Period, we did not make adequate contributions to the social insurance and housing provident funds with respect to certain of our employees such as production line workers in our Lancang production base, as required by the relevant PRC laws and regulations. In 2020, 2021 and 2022, the estimated shortfall amounts of such social insurance and housing provident fund contributions were RMB2.0 million, RMB7.0 million and RMB5.0 million, respectively. As of the Latest Practicable Date, (1) we had not been subject to any administrative actions, fines or penalties due to shortfalls of social insurance and housing provident fund contributions, (2) we had not received any notification from the relevant PRC authorities requiring us to pay for or otherwise make up the shortfalls or any overdue charges with respect to social insurance contributions or housing provident fund contributions, (3) we were not aware of any employee complaints filed against us nor were we involved in any material labor disputes with our employees with respect to social insurance or housing provident fund contributions, and (4) our Controlling Shareholders have undertaken to, pursuant to the terms and condition of their confirmation, indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to comply with relevant laws, rules and regulations concerning social insurance and housing provident fund contributions. See "Business—Our Employees." However, we cannot assure you that we will not be subject to any order to rectify the non-compliance in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding payment of the outstanding amount of the social insurance and housing provident fund contributions against us, or that we will not receive any claims in respect of the outstanding amount of the social insurance and housing provident fund contributions under national laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations promulgated by the PRC government or relevant local authorities.

Our insurance coverage is limited and may not be sufficient to cover all of our potential losses.

We believe that we have purchased and maintained various insurances in accordance with relevant laws and regulations and the standard industry practice. We cannot assure you that our insurances will provide adequate coverage for all the risks in connection with our business operations. If we were to incur substantial losses and liabilities that are not covered by our insurance policies, we may be required to bear our losses to the extent that our insurance coverage is insufficient. As a result, we could suffer significant costs and diversion of our resources, which could have a material adverse effect on our financial condition and results of operations.

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

Our Controlling Shareholders have substantial influence over us, including matters relating to our management, policies and decisions regarding acquisitions, mergers, expansion plans, sales of all or substantially all of our assets, election of directors and other significant corporate actions. Immediately following the completion of [REDACTED] (assuming that [REDACTED] is not exercised), our Controlling Shareholders will directly or indirectly, individually or together with others control [REDACTED]% of the issued share capital of our Company. This concentration of ownership may discourage, delay or prevent a change in control of the Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares (as part of a sale of the Company) and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

We could be involved in claims, disputes and legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labor disputes, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subject us to potential product liability claims if our products are proven to have failed to meet relevant health and safety or other laws and regulations, or cause or are alleged to have caused illness or health issues.

If we are unsuccessful in any product liability claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources and materially harm our reputation.

Claims, disputes or legal proceedings against us may be due to defects of supplies, such as rough tea leaves and packaging materials, sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

RISKS RELATING TO OUR INDUSTRY

The tea leaf industry in China could face competition from substitute products such as other beverage products.

According to the F&S Report, in the period between 2016 and 2021, retail sales of tea leaf products in China increased from RMB214.8 billion in 2016 to RMB304.9 billion in 2021, representing a CAGR of 7.3%. Over this period, China's nominal GDP grew at a compound annual growth rate of 8.9%. The industry of tea leaf products in China may experience relatively slower growth in the future due to market saturation and competition from other beverage products that may be viewed by consumers as substitutes for, or alternatives to, our tea leaf products, which may impact upon the size and growth of the market for tea leaves. The rapid growth in the tea leaf industry in recent years in China should not be used as an indicator for our future growth. We cannot assure you that the tea leaf market in China will be able to continue the rapid growth rate they experienced for the past several years or will be able to maintain the steady growth we expect. If these markets do not grow as we expect, our sales volume, sales revenue and profitability may be adversely affected.

The market in which we operate may be saturated with a growing number of tea leaf product sale stores.

According to the F&S Report, the number of stores for tea leaf products grew steadily from approximately 633.5 thousand in 2016 to 801.9 thousand in 2021, and it is expected to further reach 1,020.2 thousand in 2026, representing a CAGR of 4.9% from 2021 to 2026. However, we cannot assure you that there can always be sufficient customer demand, if at all, to support the rapid expansion of the tea leaf industry. If the key players within our industry continue to rapidly broaden their store network to out-compete each other and capture more market share, the market may be saturated to the extent our sales, results of operating and financial condition may be adversely impacted.

Any quality related issues for the tea leaf industry could adversely affect our business and reputation.

Other enterprises in the tea leaf industry may experience problems related to product quality and safety due to the quality standards they implement, quality defect, and inadequate compliance with and enforcement of inspection procedures under the food safety regulations. While we may not be involved in any of these events, the relevant negative publicity may cause consumers to be doubtful or fearful and may cause the government to enhance supervision of the industry, which may in turn influence consumer demand for our products. If the above events occur, our business and results of operations could be materially and adversely affected.

Failure to compete effectively may adversely affect our market share and profitability.

Our industry is highly competitive, and the competition may further intensify. Some of our competitors have solid positions in the tea leaf market with longer operating histories, global vision or greater financial, research and development or other resources. These competitors focus on specific products, regions or channels, which allow them to compete better in terms of understanding consumers, market influence and costs. As a result, our competitors may introduce better products or adapt more quickly to the evolving industry trends or market demands. Our current or potential competitors may provide products that are highly similar to ours. We cannot assure you that imitation or counterfeiting of our products, logos or brands will not occur in the market. It is often difficult to identify or eliminate those imitated or counterfeit products in a timely manner. Such incidents may affect our reputation and brand.

It is also possible that there will be significant consolidation or development of alliances in our industry, which may enable our competitors to rapidly acquire significant market share. Furthermore, competition may cause competitors to substantially increase their advertising expenses and marketing activities or to engage in unreasonable or predatory pricing behavior, or may even result in activities, whether legal or illegal, designed to undermine our brand and reputation or to influence consumers' confidence in our products. Any failure to respond to such competition effectively may materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

Any slowdowns or declines in the Chinese economy or tea leaf market in China could have an adverse impact on our business, results of operations and financial condition.

We derive substantially all of our revenue from the sales of our products in China. The success of our business depends on the condition and growth of the Chinese market, which in turn depends on macro-economic conditions and individual income levels in China. We cannot assure you that projected growth rates of the Chinese economy and the Chinese consumer market will be realized under the current economic situation. Any future slowdowns, declines or instability in the Chinese economy or consumer spending could adversely affect our business, operating results and financial condition. We believe that consumer spending habits could be adversely affected during a period of recession in the economy and that uncertainties regarding future economic prospects could also affect consumer spending habits, any of which may have an adverse effect on certain enterprises operating within the tea leaf market in China, including us. The tea leaf market in China could be affected by the changing operating conditions in China. In particular, the reduction in tariffs on foreign products after further opening of the Chinese market and entry of more international brands may intensify the competition in the tea leaf market in China. This could have an adverse impact on our business, financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN CHINA

The economic, political and social conditions in China could affect our business, results of operations, financial condition and prospects.

We generate all of our revenues from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject to and influenced by the economic, political and social conditions in China. Economic reforms begun in the late 1970s have resulted in significant economic growth in China. However, any economic reform policies or measures in China may from time to time be modified or revised. China's economy differs from the economies of most developed countries in many respects, including with respect to the degree of government involvement, control of foreign exchange, allocation of resources, as well as the overall level of development. While China's economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and among different economic sectors. In addition, the rate of growth has been slowing since 2012, and the impact of COVID-19 on China's and global economies in 2023 is likely to continue being severe.

The PRC government exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us. For example, our results of operations and financial condition may be adversely affected by government control over capital investments or changes in tax regulations. In addition, in the past, the PRC government has implemented certain measures, including interest rate adjustment, to control the pace of economic growth. These measures may cause decreased economic activities in China, which may adversely affect our business and results of operations. In addition, the increased global focus on social, ethical and environmental issues may lead to China's adoption of more stringent standards in these areas, which may adversely impact the operations of China-based companies including us. We cannot predict future changes in China's economic, political and social conditions and the effect that new government policies would have on our business and prospects. Any actions and policies adopted by the PRC government could adversely affect our business, results of operations, financial condition and competitive position.

Uncertainties with respect to the PRC legal system could have a material adverse effect on our business and operations.

Our business and operations are primarily conducted in China and are governed by applicable PRC laws, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited weight as precedents.

Even if we endeavor to comply with relevant laws and regulations, we may not always be able to do so due to a lack of detailed implementation rules by relevant government authorities. In addition, some government authorities (including local government authorities) may not consistently apply regulatory requirements issued by themselves or other PRC government authorities, making strict compliance with all regulatory requirements impractical, or in some circumstances, impossible. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our customers, suppliers, distributors and other business partners. In addition, such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of PRC laws adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. These uncertainties could limit the legal protections available to us and foreign investors, including you. In addition, any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management's attention, which in turn could have a material adverse effect on our results of operations and financial condition.

Government control of currency conversion could limit our ability to utilize our revenues effectively, to pay dividends and other obligations, and affect the value of our H Shares.

Renminbi is currently not a freely convertible currency. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Our revenues and expenses are substantially denominated in Renminbi, and the [REDACTED] from [REDACTED] and any dividends we pay on our H Shares will be in Hong Kong dollars. Under China's existing foreign exchange regulations, following the completion of [REDACTED], we will be able to make current account foreign exchange transactions, including paying dividends in foreign currencies without prior approval from the SAFE.

However, in the future, the PRC government may take measures, at its discretion, to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. If such measures are implemented, we may not be able to pay dividends in foreign currencies to holders of our H Shares. Foreign exchange transactions under our capital account are subject to significant foreign exchange controls and require SAFE's approval. These limitations could affect our ability to obtain foreign exchange through offshore financing.

Furthermore, [REDACTED] from [REDACTED] are expected to be deposited in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these [REDACTED] into onshore Renminbi. If the [REDACTED] cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these [REDACTED] efficiently may be affected as we will not be able to invest these [REDACTED] on RMB denominated assets onshore or deploy them in uses onshore where Renminbi is required. All of these factors could materially and adversely affect our business results of operations, financial condition and prospects.

Fluctuations in exchange rates of Renminbi against Hong Kong dollar, U.S. dollar or other foreign currencies could adversely affect our results of operations and the value of your investment.

Fluctuations in the exchange rate of Renminbi against Hong Kong dollar, U.S. dollar and other foreign currencies are affected by, among other things, the policies of the PRC Government and changes in China's and international political and economic conditions.

The [REDACTED] from [REDACTED] will be denominated in Hong Kong dollars. As a result, any appreciation of Renminbi against U.S. dollar, Hong Kong dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets and our [REDACTED] from [REDACTED]. Conversely, any depreciation of Renminbi may adversely affect the value of, and any dividends payable on our H Shares in foreign currencies. There are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost in China, and we have not utilized, and may not in the future utilize, any such instrument. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects, and could reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

We may be subject to the approval or other requirements of the China Securities Regulatory Commission or other PRC governmental authorities in connection with future security activities.

On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Combatting Illegal Securities Activities (關於依法從嚴打擊證券違法活動的意見), or the July 6 Opinion, which called for the enhanced administration and supervision of overseas-[REDACTED] China-based companies, proposed to revise the relevant regulation governing the overseas [REDACTED] and [REDACTED] of shares by such companies and clarified the responsibilities of competent domestic industry regulators and government authorities. The July 6 Opinion aims to achieve this by establishing a regulatory system and revising the existing rules for overseas [REDACTED] of Chinese entities and affiliates including potential extraterritorial application of Chinese securities laws. As of the Latest Practicable Date, due to the lack of further clarifications or detailed rules and regulations, there are still uncertainties regarding the interpretation and implementation of the July 6 Opinion.

On February 17, 2023, the CSRC released the Trial Administrative Measures for Overseas Securities Offering and Listing by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) (the "Trial Measures"), which will become effective on March 31, 2023 (the "Implementation Date") and stipulate that domestic companies that seek to [REDACTED] securities overseas, both directly and indirectly, shall complete the filing procedures and report relevant information to the CSRC. On the same date, the CSRC also released the Notice on the Arrangements of the Filing Management for Overseas Securities Offering and Listing of Domestic Companies (關於境內企業境外發行上市備案管理安排的通知), which stipulate that (1) prior to the Implementation Date of the Trial Measures, the CSRC would carry on its works on a normal basis pursuant to relevant regulations for the accepted applications for administrative approval for the overseas securities [REDACTED] including secondary [REDACTED] from domestic joint stock limited companies, under which circumstance if such companies could not obtain administrative approval prior to the Implementation Date, these companies shall complete the filing procedures with the CSRC; (2) as of the Implementation Date of the Trial Measures, such domestic companies that had submitted valid overseas securities [REDACTED] applications overseas, but had not obtained approval from overseas regulatory agencies or overseas stock exchanges, could reasonably arrange the timing for submitting filing applications to the CSRC, and shall complete such filing prior to their overseas securities [REDACTED]. Based on the foregoing, considering that our application for administrative approval for [REDACTED] has been accepted by the CSRC, if we have not obtained the administrative approval from the CSRC prior to the Implementation Date, we shall complete the filing procedures with the CSRC as required for [REDACTED], and we could reasonably arrange the timing for submitting the filing application to the CSRC for [REDACTED] and complete such filing prior to [REDACTED].

In addition, we cannot guarantee that new rules or regulations promulgated in the future pursuant to the July 6 Opinion and any other related PRC rules and regulations will not impose any additional requirement on us or otherwise tightening the regulations on us. If it is determined that we are subject to any CSRC approval, filing, other governmental authorization or requirements for future capital raising activities, we may fail to obtain such approval or meet such requirements in a timely manner or at all. Such failure may adversely affect our ability to finance the development of our business and may have a material adverse effect on our business and financial conditions. Furthermore, any uncertainty and/or negative publicity regarding such an approval, filing or other requirements may also have a material adverse effect on the price of our H Shares.

[REDACTED] of our H Shares may become subject to PRC taxation on dividends received from us and gains from the disposition of our H Shares.

Non-Chinese resident individual holders of H Shares whose names appear on the register of members of H Shares ("Non-Chinese Resident Individual Holders"), are subject to Chinese individual income tax on dividends received from us. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知(國稅函[2011]348號)) dated June 28, 2011 and issued by the SAT, the tax rate applicable to dividends paid to Non-Chinese Resident Individual Holders of H Shares varies from 5% to 20% (usually 10%), depending on whether there is any applicable tax treaty between China and the jurisdiction in which the Non-Chinese Resident Individual Holder of H Shares resides, as well as the tax arrangement between China and Hong Kong. Non-Chinese Resident Individual Holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. See "Appendix III—Taxation and Foreign Exchange." In addition, under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and its implementation regulations, Non-Chinese Resident Individual Holders of H Shares are subject to individual income tax at a rate of 20% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the Ministry of Finance and the SAT on March 30, 1998, gains of individuals derived from the transfer of listed shares of enterprises may be exempt from individual income tax. Based on our knowledge, as of the Latest Practicable Date, the Chinese tax authorities have not in practice sought to collect individual income tax on such gains. If such tax is collected in the future, the value of such individual holders' investments in H Shares may be materially and adversely affected.

Under the EIT Law and its implementation regulations, a non-Chinese resident enterprise is generally subject to enterprise income tax at a rate of 10% with respect to its Chinese-sourced income, including dividends received from a Chinese company and gains derived from the disposition of equity interests in a Chinese company. This rate may be reduced under any special arrangement or applicable treaty between the China and the jurisdiction in which the non-Chinese resident enterprise resides. Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises (Guo Shui Han [2008] No. 897) (關於中國居民企業向境外H股非居民企業股東派發股息代扣繳企業所得稅有關問題的通知(國稅函[2008]897號)) promulgated by the SAT on November 6, 2008, we intend to withhold tax at 10% from dividends payable to non-Chinese resident enterprise holders of H Shares (including HKSCC Nominees). Non-Chinese resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the Chinese 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 the Chinese tax authorities' approval. See "Appendix III—Taxation and Foreign Exchange." There are uncertainties as to the interpretation and implementation of the EIT Law and its implementation rules by the Chinese tax authorities, including whether and how enterprise income tax on gains derived upon the sale or other disposition of H Shares will be collected from non-Chinese resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-Chinese resident enterprise holders' investments in H Shares may be materially and adversely affected.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are defined as our profits after taxes as determined under PRC GAAP less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient, if any, distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under HKFRS in certain respects, our subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under HKFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

It may be difficult to effect service of process, enforce foreign judgments or bring original actions against us, our Directors, Supervisors and senior management residing in China.

We are a company incorporated under the laws of China, and a majority of our assets are located in China. In addition, most of our Directors, Supervisors and senior management reside within China, and the assets of our Directors, Supervisors and senior management are likely to be located within China. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong, the United States or elsewhere outside China upon us or these persons, or to bring an action in Hong Kong against us or these individuals. Moreover, China does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards.

On July 14, 2006, the Supreme People's Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (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) (the "2006 Arrangement"). Pursuant to such arrangement, a party with a final judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China, and vice versa. However, it is subject to the parties in the dispute agreeing to enter into a choice of court agreement in writing under the 2006 Arrangement.

On January 18, 2019, the Supreme People's Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special

Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "2019 Arrangement"), the commencement date of which shall be announced after the Supreme People's Court promulgates judicial interpretations and relevant procedures are completed in Hong Kong. The 2019 Arrangement will supersede the 2006 Arrangement and afford greater clarity and certainty for reciprocal recognition and enforcement of judgments in civil and commercial matters. The 2006 Arrangement will remain applicable to a "choice of court agreement in writing" entered into before the 2019 Arrangement taking effect. However, there remains uncertainties as to the outcome of any applications to recognize and enforce such judgments and arbitral awards in China.

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

The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.

Under the PRC law, legal documents for corporate transactions, including agreements and contracts are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with relevant PRC market regulation administrative authorities.

In order to secure the use of our chops and seals, we have established internal control procedures and rules for using these chops and seals. In any event that the chops and seals are intended to be used, the responsible personnel will submit a formal application, which will be verified and approved by authorized employees in accordance with our internal control procedures and rules. In addition, in order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or our affiliated entities or their subsidiaries. If any employee obtains, misuses or misappropriates our chops and seals or other controlling non-tangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations, and we may not be able to recover our loss due to such misuse or misappropriation if the third party relies on the apparent authority of such employees and acts in good faith.

Any failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations. We cannot assure you that any new laws and regulations will not require us to pay any contribution shortfall retroactively, thereby adversely affecting our financial condition and results of operations.

RISKS RELATING TO [REDACTED]

There has been no [REDACTED] market for our H Shares, and the liquidity and market [REDACTED] of our H Shares may be volatile.

Prior to [REDACTED], there has been no [REDACTED] market for our H Shares. [REDACTED] range for our H Shares was the result of negotiations between us, [REDACTED] on behalf of [REDACTED], and [REDACTED] may differ significantly from the market price for our H Shares following [REDACTED]. We have applied for [REDACTED] of, and permission to [REDACTED], our H Shares on the Stock Exchange. A [REDACTED] on [REDACTED], however, does not guarantee that an active and liquid [REDACTED] market for our H Shares will develop, or if it does develop, that it will be sustained following [REDACTED] or that the market price of our H Shares will not decline following [REDACTED]. Furthermore, the [REDACTED] of our H Shares may be volatile. The following factors may affect [REDACTED] of our H Shares:

- actual or anticipated fluctuations in our operating performance and revenue;
- news regarding recruitment or departure of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies in our industry, and other events or factors beyond our control; and

- the release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of H Shares by us or other Shareholders.

Moreover, the capital market has from time to time experienced significant [REDACTED] fluctuations that were unrelated or not directly related to the operating performance of the underlying companies in the market. These broad market and industry fluctuations may have a material and adverse effect on the [REDACTED] of our H Shares.

An active and liquid [REDACTED] market for our H Shares may not develop.

Prior to [REDACTED], our H Shares were not [REDACTED] on any other market. We cannot assure you that an active and liquid [REDACTED] market for our H Shares will be developed or be maintained after [REDACTED]. Liquid and active [REDACTED] markets usually result in less [REDACTED] volatility and more efficiency in carrying out investors' purchase and sale orders. The [REDACTED] of our H Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the [REDACTED] of our H Shares, you could lose a substantial part or all of your investment in our H Shares.

Since there will be a gap of several days between [REDACTED] of our H Shares, holders of our H Shares are subject to the risk that the [REDACTED] of our H Shares could fall during the period before [REDACTED] of our H Shares begins.

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

Because [REDACTED] of our H Shares is substantially higher than the consolidated net tangible book value per share, purchasers in [REDACTED] may experience immediate dilution.

As [REDACTED] of our H Shares is higher than the consolidated [REDACTED] per share immediately prior to [REDACTED], purchasers of our H Shares in [REDACTED] will experience an immediate dilution in [REDACTED] adjusted consolidated [REDACTED]. Our existing Shareholders will receive an increase in the [REDACTED] adjusted consolidated net tangible asset value per share of their shares. Please refer to Appendix II to this document for details. In addition, holders of our Shares may experience further dilution of their interest if [REDACTED] exercise [REDACTED] or if we issue additional shares in the future to raise additional capital.

[REDACTED] of our H Shares may be volatile, which could result in rapid and substantial losses for our Shareholders.

The market price of our H Shares may be highly volatile and could be subject to significant fluctuations. In addition, [REDACTED] of our Shares may fluctuate, which may cause significant [REDACTED] variations. Some of the factors that could negatively affect the price of our H Shares, or result in fluctuations in [REDACTED] of our H Shares following [REDACTED] include:

- variations in our operating and financial results, such as turnovers, earnings and cash flow;
- our failure to execute our strategies;
- an unexpected business interruption resulting from operational breakdowns, natural disasters, or major changes in our key personnel or senior management;
- adverse market reaction to any indebtedness that we may incur or securities that we may issue in the future;
- changes in market valuations of similar companies;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our ability to obtain or maintain regulatory approval for our products;
- inadequate protection of our intellectual property rights or legal proceedings brought against us for infringement of third parties' intellectual property rights;
- unexpected costs of litigations and unfavorable outcomes of claims arising out of defective products and safety related governmental investigations and actions; and
- general political, financial, social and economic conditions.

We have significant discretion as to how we will use [REDACTED] of [REDACTED], and you may not necessarily agree with how we use them.

Our management may spend [REDACTED] from [REDACTED] in ways you may not agree with or that do not yield a favorable return. See "Future Plans and [REDACTED]" for details of our intended use of [REDACTED]. However, our management will have discretion as to the actual application of our [REDACTED]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific use we will make of [REDACTED].

Future sales or perceived [REDACTED] of substantial amounts of our securities in the [REDACTED] market, including any future [REDACTED] in China or conversion of our Domestic Shares into H Shares, could have a material and adverse effect on the prevailing [REDACTED] of our H Shares and our ability to raise additional capital in the future, or may result in dilution of your shareholdings.

Future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the [REDACTED] market, or the [REDACTED] of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur could all cause a decline in the [REDACTED] of our H Shares. Future [REDACTED], or perceived [REDACTED], of substantial amounts of our securities or other securities relating to our H Shares, including part of any future [REDACTED], could also materially and adversely affect the prevailing [REDACTED] of our H Shares and our ability to raise capital in the future at a time and at a [REDACTED] which we deem appropriate.

Our Domestic Shares may be converted into H Shares, and such converted H Shares may be [REDACTED] on an overseas stock exchange, provided that prior to the conversion and [REDACTED] of such converted shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant Chinese regulatory authorities, including the CSRC, shall have been obtained (the "Arrangement"). In addition, such conversion, [REDACTED] shall in all respects 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. The Arrangement applies only to Domestic Shares. All of our Domestic Shares are subject to the Arrangement and may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Stock Exchange.

Our historical dividends may not be indicative of our future dividend policy, and we may not be able to pay any dividends on our H Shares.

During the Track Record Period, we declared dividends to our Shareholders of RMB16.8 million, RMB16.8 million and RMB23.9 million in 2020, 2021 and 2022, respectively, in light of our cumulative business growth. All of such dividends declared during the Track Record Period had been fully settled by bank transfer to our Shareholders as of December 31, 2022. See also Note 13 to the Accountant's Report in Appendix I to this document. However, our historical dividends may not be indicative of our future dividend policy. We cannot guarantee when and in what form dividends will be paid on our H Shares following [REDACTED]. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements, and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. See "Financial Information—Dividends" for more details.

If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our H Shares, the [REDACTED] of our H Shares may decline.

The [REDACTED] of our H Shares may be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publish negative opinions about us, the [REDACTED] of our H Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause [REDACTED] of our H Shares to decline.

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

This document contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain [REDACTED] information and other matters.

The words "anticipate," "believe," "could," "potential," "continue," "expect," "intend," "may," "plan," "seek," "will," "would," "should" and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, among others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessary estimates reflecting the best judgment of our Directors, Supervisors and senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a result, these forward-looking statements should be considered in light of various important factors, including those set out in "Risk Factors" in this document. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

The industry data and forecasts in this document obtained from various government publications and the industry report have not been independently verified.

This document includes industry data and forecasts that we obtained from various government publications and the industry report that we believe are reliable. 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. However, we cannot assure you of the accuracy or completeness of information obtained from these sources. We have not independently verified any of the data, forecasts and other statistics from such sources, nor have we ascertained that the underlying economic assumptions relied upon in those sources. Also, the Joint Sponsors, [REDACTED], any of their respective directors, officers, affiliates, advisors and representatives, or any other parties involved in [REDACTED] make no representation as to the accuracy or completeness of aforementioned facts, forecasts and other statistics in this document. Moreover, such facts, forecasts and other statistics may not be prepared on the same basis or with the same degree of accuracy (as the case may be) in other publications or jurisdictions. For these reasons, the information from various government publications and the industry report contained in this document may not be accurate and should not be given undue reliance as a basis for making your investment in our H Shares.

Substantial future sales or the expectation of substantial sales of our H Shares in the public market could cause the price of our H Shares to decline.

Although our Controlling Shareholders are subject to restrictions on their sales of H Shares within 12 months from [REDACTED] as described in "History and Corporate Structure" in this document, future sales of a significant number of our H Shares by our Controlling Shareholders or other existing shareholders in the public market after [REDACTED], or the perception that these sales could occur, could cause [REDACTED] of our H Shares to decline and could materially impair our future ability to raise capital through [REDACTED] of our H Shares. We cannot assure you that our Controlling Shareholders, or other existing shareholders will not dispose of H Shares held by them or that we will not issue H Shares pursuant to the general mandate to issue H shares granted to our Directors as described in "Appendix IV—Summary of Principal Legal and Regulatory Provisions," upon the expiration of restrictions set out above.

We may need additional capital, and the sale or issue of additional H Shares or other equity securities could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and [REDACTED] from [REDACTED], we may require additional cash resources to finance our continued growth or other future developments. We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell additional equity securities, which could result in additional dilution to our Shareholders.

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

Prior to the publication of this document, there has been and there may also be, subsequent to the date of this document but prior to the completion of [REDACTED], press and media coverage regarding us, our business, our industries and [REDACTED], which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and [REDACTED]. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of such projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.